S. Hrg. 98-833

TARGETED JOBS TAX CREDIT

HEARING

BEFORE THE

SUBCOMMITTEE ON ECONOMIC GROWTH,
EMPLOYMENT, AND REVENUE SHARING

OF THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

SECOND SESSION

S. 2185

MARCH 2, 1984

Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE
35-968 O
WASHINGTON : 1984

S361-39

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TARGETED JOBS TAX CREDIT

FRIDAY, MARCH 2, 1983

U.S. SENATE, SUBCOMMITTEE ON ECONOMIC GROWTH, EMPLOYMENT, AND REVENUE SHARING OF THE COMMITTEE ON FINANCE,

Washington, DC.

The subcommittee met, pursuant to notice, at 2:30 p.m. in room SD-215, Dirksen Office Building, the Honorable John Heinz (chairman) presiding.

Present: Senators Dole and Heinz.

Also present: Senator James Sasser.

[The press release announcing the hearing, a description of targeted jobs tax credit and S. 2185 by the Joint Committee on Taxation and a statement of Senator Bentsen follow:]

[Press release]

FINANCE SUBCOMMITTEE ON ECONOMIC GROWTH, EMPLOYMENT, AND REVENUE SHARING SETS HEARING ON TARGETED JOBS TAX CREDIT

Senator John Heinz (R., Pa.), Chairman of the Subcommittee on Economic Growth, Employment, and Revenue Sharing announced today that the Subcommittee will hold a hearing on March 2, 1984, to review the Targeted Jobs Tax Credit and proposals to extend the credit.

The hearing will be held on Friday, March 2, in Room SD-215 of the Dirksen Senate Office Building, and will begin at 2 p.m.

The hearing will focus on the Targeted Jobs Tax Credit and on S. 2185, legislation introduced by Senator Heinz to extend the credit, which under current law expires at the end of 1984, for another 5 years. "The Targeted Jobs Tax Credit was originally enacted in 1978 to focus tax incentives for employment on specific target groups that are found to experience high unemployment rates. The credit was renewed by Congress in both 1981 and 1982 because we believe the program has a great potential and needs a full opportunity to work," Senator Heinz said. "But it may be time to make a commitment to keeping the program on the books for a more extended period, to give employers and employment agencies greater certainty about the availability of the jobs credit as they seek to broaden employment opportunities for our citizens."

Senator Heinz noted that the Reagan Administration has proposed a 1-year extension of the Targeted Jobs Tax Credit in its budget for fiscal year 1985.

DESCRIPTION OF THE TARGETED JOBS TAX CREDIT AND S. 2185 ("JOB OPPORTUNITY ACT OF 1983")

Scheduled for a Hearing

before the

SUBCOMMITTEE ON ECONOMIC GROWTH, EMPLOYMENT, AND REVENUE SHARING

of the

COMMITTEE ON FINANCE

ON MARCH 2, 1984

Prepared by the Staff

of the

JOINT COMMITTEE ON TAXATION

INTRODUCTION

The Subcommittee on Economic Growth, Employment, and Revenue Sharing of the Senate Committee on Finance has scheduled a public hearing on March 2, 1984, to review the targeted jobs tax credit and to consider S. 2185, the Job Opportunity Act of 1983 (introduced by Senators Heinz, Grassley, Symms, Moynihan, Boren, Durenberger, Baucus, Wallop, Pryor, Long, Matsunaga, and others). The bill would extend the targeted jobs credit for five years, that is, for individuals who begin work for the employer from January 1, 1985, through December 31, 1989.

The first part of the pamphlet is a summary. The second part discusses the legislative history of the targeted jobs credit and the present targeted jobs credit rules. Part three describes S. 2185 and the Administration's proposal for a one-year extension of the credit, and presents their estimated revenue effects. Finally, an Appendix presents Department of Labor data on targeted jobs credit participation for fiscal year 1983.

I. SUMMARY

Present law

The targeted jobs tax credit was enacted in the Revenue Act of 1978 to replace the expiring credit for increased employment (the "new jobs credit"). As originally enacted, the targeted jobs credit was available for wages paid before 1982. The availability of the credit was successively extended by the Economic Recovery Tax Act of 1981 (ERTA) and the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) so that it may now be claimed by an employer for qualified wages paid for services performed in 1985 and 1986 to individuals who begin work for the employer before 1985.

The targeted jobs tax credit is available on an elective basis for hiring individuals from one or more of nine targeted groups. The targeted groups are (1) vocational rehabilitation referrals; (2) economically disadvantaged youths; (3) economically disadvantaged Vietnam-era veterans; (4) SSI recipients; (5) general assistance recipients; (6) economically disadvantaged cooperative education students; (7) economically disadvantaged former convicts; (8) AFDC recipients and WIN registrants; and (9) economically disadvantaged summer youth employees.

The credit generally is equal to 50 percent of the first $6,000 of qualified first-year wages and 25 percent of the first $6,000 of qualified second-year wages paid to a member of a targeted group. Thus, the maximum credit is $3,000 per individual in the first year of employment and $1,500 per individual in the second year of employment. With respect to economically disadvantaged summer youth employees, however, the credit is equal to 85 percent of up to $3,000 of wages, for a maximum credit of $2,550. The employer's deduction for wages must be reduced by the amount of the credit.

The credit may not exceed 90 percent of the employer's tax liability after being reduced by certain other nonrefundable credits. Excess credits may be carried back three years and carried forward 15 years.

S. 2185 and Administration proposal

S. 2185 would extend the targeted jobs credit for five years. Under the bill, the credit would be available for qualified wages paid to individuals who begin work for the employer before 1990.

The Administration has proposed a one-year extension of the credit, for qualified wages paid to individuals who begin work for the employer before 1986.

II. BACKGROUND AND PRESENT LAW

Legislative Background

The targeted jobs tax credit is intended to provide a tax incentive for hiring specific, targeted groups of individuals. It was enacted in the Revenue Act of 1978 as a substitute for the expiring credit for increased employment (the "new jobs credit"). The new jobs credit was available in 1977 and 1978.

As initially enacted, the targeted jobs credit was intended to be available for qualified wages paid before 1982.[1] The Economic Recovery Tax Act of 1981 (ERTA) extended the availability of the targeted jobs credit to qualified wages paid to individuals beginning work for the employer before 1984. Under ERTA, the employer could claim the credit for qualified wages paid to such individuals for services rendered in 1983 and 1984. The Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) extended the availability of the credit to qualified wages attributable to services performed in 1985 and 1986, paid to individuals who begin work for the taxpayer before 1985.

ERTA and TEFRA also altered the targeted group definitions and made several administrative changes in the credit provisions.

Present Law Targeted Job Credit Rules

General rules

The targeted jobs tax credit is available on an elective basis for hiring individuals from one or more of nine targeted groups. The credit generally is equal to 50 percent of qualified first-year wages and 25 percent of qualified second year wages. Qualified first-year wages consist of wages attributable to service rendered by a member of a targeted group during the one-year period beginning with the day the individual first begins work for the employer. For a vocational rehabilitation referral, however, the period begins the day the individual begins work for the employer on or after the beginning of the individual's vocational rehabilitation plan. Qualified second-year wages consist of wages attributable to service rendered during the one-year period which begins at the close of the first year described just above. Thus, the date on which the wages are paid does not determine whether the wages are first-year or second-year wages; rather, the wages must be attributed to the period during which the work was performed.

No more than $6,000 of wages during either the first or second year of employment may be taken into account with respect to any individual. Thus, the maximum credit per individual is $3,000 in the first year of employment and $1,500 in the second year of employment.

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[1] As the result of a clerical error, the Revenue Act of 1978 limited the credit to wages paid before 1981. The error was corrected in the Technical Corrections Act of 1979.

With respect to economically disadvantaged summer youth employees, the credit is equal to 85 percent of up to $3,000 of qualified first-year wages, for a maximum credit of $2,550, with no credit for any second-year wages.

The deduction for wages must be reduced by the amount of the credit.

Certification of members of targeted groups

In general, an individual is not treated as a member of a targeted group unless certification that he is a member of such a group is received or requested in writing by the employer from the designated local agency on or before the day on which the individual begins work for the employer. In the case of a certification of an economically disadvantaged youth participating in a cooperative education program, this requirement is satisfied if necessary certification is requested or received from the participating school on or before the day on which the individual begins work for the employer. The "designated local agency" is the State employment security agency.

If a certification is incorrect because it was based on false information provided by a member of a targeted group, the certification is to be revoked, so that wages paid after the revocation notice is received by the employer are not treated as qualified wages.

The U.S. Employment Service, in consultation with the Internal Revenue Service, is to take whatever steps are necessary to keep employers appraised of the availability of the credit.

Targeted groups eligible for the credit

The nine groups eligible for the credit are either recipients of payments under means-tested transfer programs, economically disadvantaged (as measured by family income), or disabled:

(1) *Vocational rehabilitation referrals*

Vocational rehabilitation referrals are those individuals who have a physical or mental disability which constitutes a substantial handicap to employment and who have been referred to the employer while receiving, or after completing, vocational rehabilitation services under an individualized, written rehabilitation plan under a state plan approved under the Rehabilitation Act of 1973, or under a rehabilitation plan for veterans carried out under chapter 31 of title 38, U.S. Code. Certification can be performed by the designated local employment agency upon assurances from the vocational rehabilitation agency that the employee has met the above conditions.

(2) *Economically disadvantaged youths*

Economically disadvantaged youths are individuals certified by the designated local employment agency as (a) members of economically disadvantaged families and (b) at least age 18 but not age 25 on the date they are hired by an employer. An individual is determined to be a member of an economically disadvantaged family if his or her family income, during the six months immediately preceding the earlier of the month in which the determination occurs or the month in which the hiring date occurs would be, on an annual basis, 70 percent or less of the Bureau of Labor Statistics lower living standard. A determination that an individual is a member of an economically disadvantaged family is valid for 45 days from the date on which the determination is made.

Except as otherwise noted below, a determination of whether an individual is a member of an economically disadvantaged family is made on the same basis and is subject to the same 45 day limitation where required in connection with the four other targeted groups that exclude individuals not economically disadvantaged.

(3) *Economically disadvantaged Vietnam-era veterans*

The third targeted group consists of Vietnam-era veterans certified by the designated local employment agency as members of economically disadvantaged families. For these purposes, a Vietnam-era veteran is an individual who has served on active duty (other than for training) in the Armed Forces for more than 180 days, or who has been discharged or released from active duty in the Armed Forces for a service-connected disability, but in either case, the active duty must have taken place after August 4, 1964, and before May 8, 1975. However, any individual who has served for a period of more than 90 days during which the individual was on active duty (other than for training) is not an eligible employee if any of this active duty occurred during the 60-day period ending on the date the individual is hired by the employer. This latter rule is intended to prevent employers that hire current members of the armed services (or those recently departed from service) from receiving the credit.

(4) *SSI recipients*

SSI recipients are those receiving either Supplemental Security Income under Title XVI of the Social Security Act or State supplements described in section 1616 of that Act or section 212 of P.L. 93-66. To be an eligible employee, the individual must have received SSI payments during a one month or longer period ending during the 60-day period which ends on the date the individual is hired by the employer. The designated local agency is to issue the certification after a determination by the agency making the payments that these conditions have been fulfilled.

(5) *General assistance recipients*

General assistance recipients are individuals who receive general assistance for a period of not less than 30 days if this period ends within the 60-day period ending on the date the individual is hired by the employer. General assistance programs are State and local programs which provide individuals with money payments, vouchers or scrip based on need. These programs are referred to by a wide variety of names, including home relief, poor relief, temporary relief, and direct relief. Because of the wide variety of such programs, Congress provided that a recipient will be an eligible employee only after the program has been designated by the Secretary of the Treasury as a program which provides money payments, vouchers or scrip to needy individuals. Certification is be performed by the designated local agency.

(6) *Economically disadvantaged cooperative education students*

The sixth targeted group consists of youths who (a) actively participate in qualified cooperative education programs, (b) have attained age 16 but have not attained age 20, (c) have not graduated from high school or vocational school, and (d) are members of economically disadvantaged families. The definitions of a qualified cooperative education program and a qualified school are similar to those used in the Vocational Education Act of 1963. Thus, a qualified cooperative education program means a program of vocational education for individuals who, through written cooperative arrangements between a qualified school and one or more employers, receive instruction, including required academic instruction, by alternation of study in school with a job in any occupational field, but only if these two experiences are planned and supervised by the school and the employer so that each experience contributes to the student's education and employability.

For this purpose a qualified school is (1) a specialized high school used exclusively or principally for the provision of vocational education to individuals who are available for study in preparation for entering the labor market, (2) the department of a high school used exclusively or principally for providing vocational education to persons who are available for study in preparation for entering the labor market, or (3) a technical or vocational school used exclusively or principally for the provision of vocational education to persons who have completed or left high school and who are available for study in preparation for entering the labor market. In order for a nonpublic school to be a qualified school, it must be exempt from income tax under section 501(a) of the Code.

The certification is performed by the school participating in the cooperative education program. After initial certification, an individual remains a member of the targeted group only while he or she continues to meet the program participation, age, and degree status requirements of (a), (b), and (c), above.

(7) *Economically disadvantaged former convicts*

Any individual who is certified by the designated local employment agency (a) as having at some time been convicted of a felony under State or Federal law, (b) as being a member of an economically disadvantaged family, and (c) as having been hired within five years of the later of release from prison or date of conviction is an eligible employee for purposes of the targeted jobs credit.

(8) *AFDC recipients and WIN registrants*

Any individual who is certified by the designated local employment agency (a) as being eligible for Aid to Families with Dependent Children and as having continually received such aid during the 90 days before he was hired by the employer or (b) as having been placed in employment under a work incentive program established under section 432(b)(1) or 445 of the Social Security Act is an eligible employee for purposes of the targeted jobs credit.

(9) *Economically disadvantaged summer youth employees*

The ninth targeted group consists of youths who are certified by the designated local agency as being 16 or 17 years of age on the hiring date and a member of an economically disadvantaged family and who perform services in any 90-day period between May 1 and September 15. A youth must not have been an employee of the employer prior to this 90-day period. With respect to any particular employer, an employee can qualify only one time for this summer youth credit. If, after the end of the 90-day period, the employer continues to employ a youth who is certified during the 90-day period as a member of another targeted group, the limit on qualified first-year wages takes into account wages paid to the youth while he was a qualified summer youth employee.

Definition of wages

In general, wages eligible for the credit are defined by reference to the definition of wages under FUTA in section 3306(b) of the Code, except that the dollar limits do not apply. Because wages paid to economically disadvantaged cooperative education students and to certain agricultural and railroad employees are not FUTA wages, special rules are provided for these wages.

Wages may be taken into account for purposes of the credit only if more than one-half of the wages paid during the taxable year to an employee are for services in the employer's trade or business. The test as to whether more than one-half of an employee's wages are for services in a trade or business is applied to each separate employer, without treating related employers as a single employer.

Wages for purposes of the credit do not include amounts paid to an individual for whom the employer is receiving payments for on-the-job training under a Federally-funded program.

Other rules

In order to prevent taxpayers from escaping all tax liability by reason of the credit, the amount of the credit may not exceed 90 percent of the taxpayer's income tax liability. Furthermore, the credit is allowed only after certain other nonrefundable credits have been taken. If, after applying these other credits, 90 percent of an employer's remaining tax liability for the year is less than the targeted jobs credit, the excess credit can be carried back three years and carried forward 15 years, beginning with the earliest year.

All employees of all corporations that are members of a controlled group of corporations are to be treated as if they were employees of the same corporation for purposes of determining the years of employment of any employee and wages for any employee up to $6,000. Generally, under the controlled group rules, the credit allowed the group is the same as if the group were a single company. A comparable rule is provided in the case of partnerships, proprietorships, and other trades or businesses (whether or not incorporated) which are under common control, so that all employees of such organizations generally are to be treated as if they were employed by a single person. The amount of targeted jobs credit allowable to each member of the controlled group is its proportionate share of the wages giving rise to the credit.

No credit is available for the hiring of certain related individuals (primarily dependents or owners of the taxpayer). The credit is also not available for wages paid to an individual who was employed by the employer at any time during which the individual was not a certified member of a targeted group.

III. DESCRIPTION OF S. 2185 AND ADMINISTRATION PROPOSAL

Description of Proposals

S. 2185

S. 2185 would extend the targeted jobs tax credit for five more years. Under the bill, the credit would be available for qualified wages paid to individuals who begin work for the employer on or before December 31, 1989. Thus, if an individual begins work on December 31, 1989, the employer would be permitted to claim the credit for qualified first-year and qualified second-year wages paid to the individual for services performed in 1990 and 1991, respectively.

Administration proposal

In its Fiscal Year 1985 Budget submitted to Congress on February 1, 1984, the Administration proposed a one-year extension of the targeted jobs credit. Under the Administration proposal, the credit would be applicable to wages paid to individuals who begin work for the employer on or before December 31, 1985.

Revenue Effect

The estimated revenue effects of the proposals are as follows:

[Millions of dollars]

	Fiscal years				
	1985	1986	1987	1988	1989
S. 2185	−163	−536	−914	−950	−904
Administration proposal	−163	−383	−359	−186	−56

APPENDIX: DATA ON TARGETED JOBS CREDIT PARTICIPATION, FISCAL YEAR 1983

VOUCHERS AND CERTIFICATIONS BY TARGETED GROUP [1]

[Percent of total in parentheses]

Targeted Group	Vouchers	Certification
Economically Disadvantaged Youths 18-24	581,795 (45.2)	259,309 (60.1)
Economically Disadvantaged Vietnam-era Veterans	80,808 (6.2)	24,141 (5.6)
Economically Disadvantaged Former Convicts	94,545 (7.3)	21,929 (5.1)
Economically Disadvantaged Summer Youths	87,308 (6.8)	33,538 (7.8)
Involuntary Terminated CETA employees [2]	1,130 (0.1)	383 (0.1)
General Assistance Recipients	65,169 (5.1)	14,480 (3.3)
SSI Recipients	3,115 (0.2)	1,254 (0.3)
AFDC Recipients	294,394 (22.9)	50,736 (11.8)
Vocational Rehabilitation Referrals	78,683 (6.2)	25,412 (5.9)
Total [3]	1,286,947 (100.0)	431,182 (100.0)

[1] A voucher is a preliminary determination that an individual is a member of a targeted group. A certification is a final eligibility determination, issued upon the request of a hiring employer.

[2] Individuals involuntarily terminated from a Comprehensive Employment and Training Act (CETA) public service employment program were eligible for certification if they began work for the employer before January 1, 1983.

[3] Does not include certifications of economically disadvantaged cooperative education students. Such certifications are issued by participating schools rather than State employment security agencies which issue certifications for all other targeted groups.

Source: U.S. Department of Labor.

STATEMENT BY SENATOR LLOYD BENTSEN ON THE EXTENSION OF THE TARGETED JOBS TAX CREDIT PROGRAM

Mr. Chairman, I would like to take this opportunity to praise you for scheduling a hearing on a very important issue—the targeted jobs tax credit. As you all know, unless Congress acts to extend this important program, it will lapse at the end of this year. As one who first introduced this legislation back in 1975, and who fought hard for its enactment in 1978, I realize the positive impact that this program is having on a very worthy sector of our populace.

We give business tax credits to encourage the purchase of machinery. Why not give similar tax incentives to employers who invest in our most precious natural resource, the working men and women of America. I am sure you are all aware that this legislation is structured to benefit a number of economically disadvantaged groups: Youths between the ages of 18 and 24, Vietnam veterans under the age of 35, and ex-convicts. Also included in this program are general assistance recipients, SSI recipients, and the handicapped who have been vocationally rehabilitated.

It is a good program, one which has effectively provided an opportunity for those who are economically disadvantaged or who lack the basic skills to compete effectively in the job market. All benefit from this program: Individuals who would not otherwise have an opportunity to work, the employer, who has an additional employee, and the Federal Government who, instead of having someone receiving assistance, has someone contributing to the gross national product, and paying taxes.

A preliminary study on the benefits of the targeted jobs tax credit recently came across my desk. Let me share with you the conclusions reached by this group:

1. The increasing hiring of TJTC credited persons shows that the TJTC program has provided the hoped-for incentive for businesses in the private sector to provide meaningful employment to many persons who have previously known only federal assistance programs.

2. Such meaningful employment might well be far more beneficial than either welfare-type programs or various "training" programs subsidized totally by federal funds because it involves the private sector to a much larger degree and results in both longer retention and the development of a "work history" for many previously difficult to employ persons.

3. The TJTC program actually has savings to governmental agencies and can further be shown to have created revenues to the treasury in terms of added tax, unemployment, and social security dollars. As is clearly shown by the data presented in the study, these savings and increased revenues outweigh the cost of the program, in terms of tax credits granted, by a considerable amount.

Although the report is presented in preliminary form only, it shows what we all believe are the benefits of the targeted jobs tax credit program: Reduced unemployment, and reduced Federal spending. Mr. Chairman, there are areas in south Texas with an unemployment rate exceeding 40 percent. Although the national civilian unemployment rate is currently 8 percent, the rate for teenagers stands at 19.4 percent. This program, which is specifically targeted at groups which have historically had high unemployment rates certainly deserves the immediate consideration of this committee.

I look forward to hearing from our distinguished guests this afternoon, and I appreciate the time the chairman has given me to speak on this issue.

Senator **HEINZ**. Ladies and gentlemen, the Subcommittee on Economic Growth, Employment, and Revenue Sharing is holding a hearing today on the "Targeted Jobs Tax Credit," and I would like to welcome our panelists and those of you in the audience for your interest in what I consider to be a very important piece of legislation before this committee and this Congress, namely the 5-year extension of the targeted jobs tax credit.

I am going to, after I make an opening statement—I see one of our colleagues, Senator Sasser here. I am going to ask him to precede our witnesses so that he may return to his other Senate duties.

But let me just, by way of background say that the targeted jobs tax credit was originally enacted in 1978 and was extended in 1981 for 1 year, and it was extended a second time in 1982 through the current year. The program expires at the end of 1984, and I feel very strongly that we should again renew this valuable program and have submitted legislation, S. 2185, that would extend this program for 5 years.

At this point we have 29 cosponsors of the targeted jobs tax credit. Twelve of that 29 happen to be members of the Senate Finance Committee. That is significant, because 11 is a majority, and 12 is a bonus.

I will attempt, with the help of my colleagues in the committee, to include the targeted jobs tax credit in the deficit reduction package which the Finance Committee will be taking up again early next week.

I happen to believe that this is a valuable program, as I said, and the reason I think it is valuable is because of the way it operates. It offers financial incentives to employers who hire individuals from a variety of carefully targeted groups, including the handicapped who have been vocationally rehabilitated, youths between 18 and 24 years of age, certain Vietnam veterans, ex-convicts, general assistance recipients, and supplemental security income recipients.

These targeted individuals receive vouchers from local Federal Government offices, jointly determine by the Treasury and Labor Departments. During the interviewing process, these vouchers are presented to prospective employers, to indicate that those who hire these workers will qualify for the tax credit.

The targeted jobs tax credit offers a way out of poverty and joblessness for those who are physically or economically disadvantage or who lack the basic skills or experience necessary to compete effectively in the job market, and who are looking for productive private-sector employment opportunities.

It was very encouraging to me to see that this Reagan administration proposed and endorsed a 1-year extension of the targeted jobs tax credit, that is through 1985; however, it is my belief—and I think we will hear from our witnesses about this—that a 1-year extension is clearly not adequate. And I hope that today's testimony will demonstrate the necessity of a 5-year extension.

I note that we have witnesses representing several of the targeted groups. It would seem logical that for the tax credit to be fully effective, employers of these groups need time and need assurance that the law will be on the books for more than just a year. They need the time so they can fully commit and, for example, train personnel in the use of the targeted jobs tax credit. And it is a fact of life that the targeted groups, for whatever reasons, will not just disappear tomorrow; so a 1-year extension is not going to help them two years from now.

They deserve our help, and one way to help them is to extend the targeted jobs tax credit for 5 years.

The legislation has proven, as I believe we will hear, to be an effective and efficient way for the targeted groups to help themselves.

It is also gratifying to see so many employers as well as employee representatives interested in this extension. May I say to both employers and employee representatives that you must continue to take the initiative not only in forums such as this but also in informing your fellow employers about this legislation, urging State employment offices and even the administering agencies of the Federal Government about the social and economic benefits that can be realized by a full commitment to this legislation and the program.

I am also anxious to hear information from the several studies that have been performed on the targeted jobs tax credit. As you know, continuing budget deficits have placed all Federal programs under closer and closer scruitiny, and I hope that the studies today will show that there is also an economic reason why Congress should extend this program. It helps to lower the deficit, and I think and hope that we will be able to show that this program helps us in that task.

High unemployment among the targeted groups costs the Treasury money by driving up spending under the other entitlement programs. On the other hand, those employed no longer draw those payments from the Treasury, but instead contribute to the Treasury through taxes on the incomes they earn.

Again, let me welcome all of you here today. I think it is really remakable that on a Friday afternoon, with virtually everybody in transit someplace, and I include some of my colleagues but certainly not Senator Sasser who cares enough to be here, that we should have such excellent participation here this afternoon.

But, notwithstanding that, let me announce that because we do have probably the largest number of witnesses we have ever in the Senate Finance Committee tried to bring in in one afternoon, and because Saturday is only about 9½ hours away, that the witnesses observe the rules of this committee. We will put the entire opening statement of yours and your backup documents into the record, but I would ask you to please observe a 3-minute oral presentation and summarize, therefore, accordingly.

But I do assure you that your full statements' text will be included in the record as if given in full.

It is my pleasure to welcome the soon to be Senior Senator from Tennessee, Senator Sasser. We are glad to have you before the Finance Committee. Please proceed.

STATEMENT OF HON. JAMES SASSER, U.S. SENATOR FROM THE STATE OF TENNESSEE

Senator SASSER. Mr. Chairman, I thank you, and I am delighted to appear before your subcommittee today. I intend to abide by the 3-minute rule and perhaps set a good example for witnesses to follow. Mr. Chairman, you do have 21 witnesses, and I happen to know we were in session until almost midnight last evening, so I will be brief and talk fast.

I want to applaud and commend your continued efforts in the area of the Targeted Jobs Tax Credit Program, and I am proud, Mr. Chairman, to be a cosponsor of your legislation calling for a 5-year extension of the jobs tax credit. I think such an extension would send a strong signal to the business community of continued congressional interest in this program.

We have witnessed increased use of the jobs tax credit over the past few years, and figures for fiscal year 1983 indicate that there were 431,000 certifications under the jobs tax credit. This represents twice the number of certifications in fiscal year 1982 and underscores the increased use of the jobs tax credit in the business community.

Mr. Chairman, I share with you the conviction that greater use of the jobs tax credit means more employment opportunities for many in our Nation.

Now, because of my interest in the expanded use of the jobs tax credit, I have taken it a little further, Mr. Chairman, and have introduced legislation of my own, S. 371, which creates a new target group for long-term unemployed persons.

Persons qualifying under this group are individuals who have exhausted all available unemployment compensation, or who have been unemployed for 26 weeks or more.

Under my legislation, a small business which hires a long-term unemployed person could collect a credit of 75 percent of the first year's wages, an increase over the present 50 percent.

The addition of long-term unemployed to the jobs tax credit is urgently needed to address certain very compelling issues. Perhaps the greatest problem is the unsettling trend we are experiencing with the long-term unemployed in this country.

I am sure, Mr. Chairman, that you were cheered, as I am, by recent drops in the national unemployment rate; but this good news may be partially masking a growing problem, and that is the growth of the long-term unemployed.

In 1979, the percentage of unemployed persons who had been out of work for 27 weeks stood at 8.7 percent. By 1981, this figure had grown to 14 percent; by 1982, almost 17 percent; and this year, Mr. Chairman, the long-term unemployed reaches a shocking 24 percent.

So, Mr. Chairman, I commend to you today this legislation which I am introducing, which will be targeted at the long-term unemployed individual. I want to commend you once again for your interest in this jobs tax credit legislation, for the yeoman work that you have done in this field, and I look forward to putting my shoulder to the wheel with yours in the coming weeks to see that this legislation is extended and becomes once again a reality.

Mr. Chairman, I would ask that my full statement be printed in the record as if read, and I apologize—I wanted to get it under 3 minutes, but I think I have gone about 30 seconds over.

Thank you.

Senator HEINZ. Senator, you have set a record for a Senator. [Laughter.]

I want to commend my friend from Tennessee for an excellent statement. I want to ask you just one question:

In addition to the long-term unemployed, those unemployed as defined in your bill for more than 26 weeks, I anticipate we might well come up with other categories of people. We have roughly six in the bill right now. Do you believe that the long-term unemployed are more urgent to include in the bill than any of the categories we now have, or are they about on a par, or are they of slightly less even if only slightly less urgency? The nine categories include: the handicapped, youths between ages 18 and 24, economically disadvantaged summer youth, certain Vietnam veterans, ex-convicts, general assistance recipients, SSI recipients, and AFDC recipients.

The reason I ask that question is this: Generally speaking, the concept of the targeted jobs tax credit has been to get people to enter, if not for the first time then after some kind of very long-term catastrophe—someone who has been disabled, somebody who has been to prison for quite a long time, someone who has served in Vietnam and came back with drug problems, you name it—and I just wanted to get a sense from the Senator as to how highly he would rank this issue.

I happen to have about as many long-term unemployed in Pittsburgh, PA, I suspect, proportionately, as any area of our country, so I have a great interest in that problem.

Senator SASSER. Well, let me say, Mr. Chairman, that there is some overlapping, as I am sure you are aware, between these categories that you just mentioned and those who would qualify as long-term unemployed.

I am very concerned about long-term unemployed, because the unemployment rate in my native State of Tennessee has been running two points above the national average for the last 2 years, and we had bad news just this last month: it jumped an additional 1.9 percent. So we are running now close to 4 percent ahead of the unemployment figures on a national basis.

But I would submit, Mr. Chairman, that the problem of the long-term unemployed is I think of equal importance with these other categories that you have mentioned.

I say that for this reason: The longer they are unemployed, the more unemployable many of them become. And they begin to develop many of the same problems and characteristics from an employment point of view that the handicapped would have, that perhaps the Vietnam veteran who has experienced emotional problems or drug problems, et cetera, would have. And for that reason, I think they certainly are on a plain that would be comparable with the needs of these categories that you have mentioned.

It is very difficult, as you well know, to single out the unemployed and say, "This is more deserving, this category, than the other." But I would say the long-term unemployed at least are on an equal basis, in the judgment of this Senator.

[Senator Sasser's prepared statement follows:]

STATEMENT OF SENATOR SASSER

Mr. Chairman, I am delighted to appear before this subcommittee today to address a topic of vital importance, the targeted jobs tax credit program. I applaud and commend your continued interest and efforts in this area Mr. Chairman and I am proud to cosponsor your legislation, calling for a five year extension of the jobs tax credit. Such an extension would send a strong signal to the business community of continued congressional interest in this program. This show of congressional support would no doubt lead to continued growth in the use of the jobs tax credit.

We have witnessed increased use of the jobs tax credit over the past few years. Figures for fiscal year 1983 indicated that there were 431,000 certifications under the jobs tax credit. This represents twice the number of certifications in fiscal year 1982 and underscores the increased use of the jobs tax credit in the business community.

I share your conviction that greater use of the TJTC means more employment opportunities for many in our nation. Because of my interest in expanded use of the TJTC, I have introduced legislation, S. 371, which creates a new target group for long-term unemployed persons. Persons qualifying under this group are individuals who have exhausted all available unemployment compensation or who have been unemployed for 26 weeks or more.

In addition to creating this new target group, S. 371 increases the amount of tax credit available when the hiring firm is a small business. Under my legislation, a small business which hires a long-term unemployed person could claim a credit on 75 percent of first year wages, an increase over the present 50 percent.

The addition of long-term unemployed to the jobs tax credit is urgently needed to address several compelling issues. Perhaps the greatest problem addressed by the provisions of S. 371 is the unsettling trend we are experiencing with long-term unemployment in America. While we all have been cheered by recent drops in the national unemployment rate, this good news masks a growing problem. In 1979, the percentage of unemployed persons who had been out of work for 27 weeks or more stood at 8.7 percent. This figure grew to 14 percent in 1981 and 16.6 percent in 1982. Last year, Mr. Chairman, we witnessed an alarming jump in this category. In 1983 the percentage of long-term unemployed persons reached a shocking 23.9 percent. Thus, the percentage of long-term unemployed individuals in the United States has nearly tripled in 4 short years.

Unfortunately, there are indications that this trend is not substantially reversing itself in 1984. Over 2 million Americans were unemployed for 27 weeks or more last month, representing 22.6 percent of the unemployment total. (February's figures, released today, are not much better. . . .

S. 371 is an attempt to address this growing national problem. The provisions of this legislation also enhance the attractiveness of the TJTC for our Nation's small businesses. As you are aware Mr. Chairman, small businesses are labor intensive and, therefore, do not generally benefit proportionally from capital investment incentives such as the investment tax credit or accelerated depreciation schemes. Our present tax system contains these and other significant incentives for equipment purchases, but little in the way of incentive unemployment. As pointed out by the American Institute of Certified Public Accountants, the job credit called for in S. 371 will restore some balance to the equipment v. people equation.

This particular credit will help the cash flow of our small firms. The capital provided by this type of tax credit can in turn lead to growth in the small business sector of the economy.

The proposals contained in S. 371 have been warmly received by many. The legislation has been endorsed by the National Society of Public Accountants and the National Alliance of Business. Small businesses from across the country have contacted my office with offers of help and words of encouragement for this legislation.

Equally important, we have discussed the provisions of S. 371 in hearings before the Senate Small Business Committee. Small business owners appearing before the committee indicated that they would make us of a tax credit such as that contained in S. 371 and further stated that this type of credit did indeed act as an incentive for hiring. These comments were echoed by several members of the Small Business Committee's National Advisory Council in a meeting last year.

Revenue figures provided on this particular addition to the TJTC vary greatly Mr. Chairman. The Treasury Department states that the provisions of S. 371 would cost no more than $250 million per year. The Joint Tax Committee provided revenue estimates that were higher, ranging from $600 million in FY84 and $900 million in FY85 to $700 million FY86 and $400 million in FY87.

While I find such variance troubling, one must be careful not to put too much faith in either set of figures. I say this because neither the Treasury Department nor the Joint Tax Committee take into account increased revenues and decreased federal expenditures resulting from individuals hired through this type of tax credit. The Congressional Budget Office estimates that each point of unemployment costs the Treasury some $30 billion, $7 billion in lost revenue and $23 billion in added unemployment and welfare aid. The 431,000 individuals certified under the TJTC last year represent nearly one-half a point of unemployment. While I don't want to take this line of reasoning too far, I think you see my point. Any accurate assessment of the costs involved with targeted jobs tax credits take into account increased revenues and decreased federal expenditures.

In closing Mr. Chairman, let me again pledge my support for your efforts to extend the targeted jobs tax credit program. I hope to enlist your support in expanding this valuable tool as I described today. I look forward to working with you in this venture and thank you for the opportunity to appear before your subcommittee today.

Senator HEINZ. I thank my friend from Tennessee. Thank you, Senator Sasser.

Senator **Sasser**. Thank you.

Senator **Heinz**. Our next witnesses are a panel consisting of Scott Marshall, Patricia Goodall. Sister Judith Schloegel, Claude Kirk, Jr., Larry Brown, and Willis Ethridge.

Let me ask if Mr. Marshall would be our leadoff witness.

STATEMENT OF J. SCOTT MARSHALL, DIRECTOR OF GOVERNMENTAL AFFAIRS, ACCOMPANIED BY BARBARA NELSON, NATIONAL STAFF ATTORNEY, AMERICAN COUNCIL OF THE BLIND, WASHINGTON, DC

Mr. **Marshall**. Thank you, Mr. Chairman.

The American Council of the Blind, the largest organization of blind and visually impaired people in this Nation is pleased to testify in support of the 5-year reauthorization of the targeted jobs tax credit, and also to make recommendations concerning improvement of the credit.

We are also appearing today on behalf of the American Foundation for the Blind, which is the national research and consultant agency in the field of services to blind persons.

The President's Committee on the Employment of the Handicapped has recently estimated that the unemployment rate among disabled people ranges in the neighborhood of 50 to 75 percent, and that in only few instances is this unemployment rate attributable to the inability to do work.

We must explore ways of making employment of the handicapped people more attractive to employers, and we think that the targeted jobs tax credit does this.

However, as we outlined in detail in our prepared statement, we suggest that the credit can be improved and simplified in several ways. Let me outline these for you:

First, we believe that a medically determinable handicap certification should be added to the definition of membership in the targeted group. This is a suggestion because in many instances people are no longer receiving rehabilitation services, and a medical determination of "handicapped" will greatly simplify the administration of the targeted jobs tax credit.

In addition, we believe that the amount of the first year qualified wages should be increased to $20,000. You may believe this to be a high figure; however, we think it is entirely reasonable, given the costs to society of other support programs that are paid to handicapped individuals; for example, the average SSDI recipient and his family receives $10,428 annually. In addition to that, the cost of medicare and medicaid, housing subsidies, make employment, even with an increased wage base for the targeted jobs tax credit, a very cost-effective approach to making employment more attractive for disabled persons.

In addition, we believe that the targeted jobs tax credit can be used as an employment-retention device. Presently, the credit is available only for new hires, and we think that the employer who retains an employee after the onset of disability should also be able to avail himself of the credit.

Finally, Mr. Chairman, we think that the purchase of sensory and communication aids needed for job advancement after initial placement can also be a way in which the credit can be used to help handicapped persons advance in employment.

On November 28, our President, during a ceremony to sign the proclamation which designates the next 10 years as the "Decade of the Disabled," stated, and we certainly agree, that this Nation misses the mark when it places charity and welfare before the opportunity for jobs.

We certainly look forward to working with the committee in consideration of these and the other proposals presented here today as the reauthorization process of the targeted jobs tax credit continues.

Thank you very much.

Senator HEINZ. Mr. Marshall, thank you very much.

[Mr. Marshall's prepared statement follows:]

STATEMENT OF THE

AMERICAN COUNCIL OF THE BLIND

BY J. SCOTT MARSHALL, DIRECTOR OF GOVERNMENTAL AFFAIRS

BEFORE THE

COMMITTEE ON FINANCE

SUBCOMMITTEE ON ECONOMIC GROWTH, EMPLOYMENT, AND REVENUE SHARING

U.S. SENATE, 98th CONGRESS, SECOND SESSION

March 2, 1984

TARGETED JOBS TAX CREDIT

For further information contact:
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STATEMENT OF THE AMERICAN COUNCIL OF THE BLIND
REGARDING TARGETED JOBS TAX CREDIT

Mr. Chairman: The American Council of the Blind is pleased for this opportunity to testify concerning needed improvements in the Targeted Jobs Tax Credit (TJTC). In summary we make the following recommendations as more fully explained below: (1) The TJTC has opened many employment opportunities for blind, severely visually impaired, and other handicapped people. It should be extended. (2) The credit should be extended to persons who have a medically determinable handicap as well as to handicapped people who are referred by a vocational rehabilitation agency. (3) The amount of the qualified first-year wages on which the credit is based should be raised to at least $20,000. (4) The credit should be available to an employer who retains an employee after the onset of a disability. (5) The credit should also be available for the purchase of sensory and communications aids needed for upward job mobility.

I. TJTC SHOULD BE EXTENDED

The American Council of the Blind is the largest organization of blind and visually impaired people in the United States. For the past 23 years we have worked to improve the lives of this nation's blind and visually impaired citizens through legislation, legal advocacy, and public education. Our members come from all walks of life and reside in all parts of the country. Some of the Council's members own their own businesses; others are employed in a variety of occupations including law, teaching, retailing, and data processing. Unfortunately, many others are unemployed and have encountered numerous employment barriers including the public's frequent misconceptions regarding the capabilities of blind and visually impaired persons; the fear that hiring a blind person will represent a financial burden because of the need to provide reading or other assistance; or simply the irrational concern of "what will my clients or customers think!", an attitude not unlike that faced by many other minority groups 20 years ago. The Targeted Jobs Tax Credit often provides the incentive some employers need to give qualified handicapped job applicants a chance for a job.

The President's Committee on the Employment of the Handicapped estimates that the unemployment rate among disabled people is between 50 and 75 percent, although in few cases is unemployment due to the inability to perform work.[1] It is therefore not surprising to note that disabled people are generally low income individuals. The U.S. Census Bureau recently reported that 26 percent of working age disabled adults have incomes below the poverty line and that this poverty rate is two and one-half times that of nondisabled working people.[2] Yet today blind and other disabled people are better equipped, at least from an educational standpoint, to take their rightful place in the work force. More and more children are receiving special education services at an earlier age, thereby permitting even the most severely handicapped youngsters to achieve to the maximum extent possible. Today college, vocational and other training programs are open to more blind and other disabled people than ever before, thanks in part to Section 504 of the Rehabilitation Act of 1973. Despite this progress, disabled people are still not covered by the Civil Rights Act of 1964 and therefore do not enjoy the same protections against employment discrimination available to other minority groups.

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[1] President's Committee on Employment of the Handicapped, quoted in Handicapped Rights and Regulations, Vol. 4, No. 7, April 5, 1983, p. 49.

[2] U.S. Census Bureau, Labor Force Status and Other Characteristics of Persons with Work Disability, Series P-23127 (1982); See also "Physical Disability and Public Policy," Scientific American, Vol. 248, No. 6, June 1983, p. 42.

Therefore, there is a real need to continue to provide the TJTC as a concrete incentive to encourage employers to open opportunities to handicapped workers.

This incentive to employing handicapped workers provided by the TJTC is extremely cost effective. In 1977 alone, this nation spent over $63 billion on working age disabled people. Of this total $47 billion was spent on welfare and other support programs; $13 billion was earmarked for medical care and only about $3 billion was paid for direct services such as vocational rehabilitation.[3] In January 1984 the average disabled worker and his family received $869 per month in Social Security Disability Insurance benefits ($10,428 annually). The Social Security Administration further reports that there are 2.6 million disabled workers and 1.3 million spouses and children of disabled workers currently on the benefit rolls.[4] These Social Security figures do not, of course, include the cost of Medicare, Medicaid, Food Stamps and/or housing subsidies which may be provided to disabled people. Thus, unemployment of disabled people is costly to society as a result of the cost of support programs, not to mention the cost of lost tax revenues. Unemployment is also costly from a human perspective if qualified disabled people cannot find work and therefore are prevented from participating fully in their communities. Therefore, in these times when cutting the federal budget is necessary, the TJTC should be extended. Its small cost is far outweighed by savings to the federal government.

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[3] "Physical Disability and Public Policy," Scientific American, Vol. 248, No. 6, June 1983, p. 43.

[4] Social Security Facts and Figures, published by the Social Security Administration, January 1984.

II. IMPROVEMENTS IN THE TJTC ARE NECESSARY

The Targeted Jobs Tax Credit has not been used to its fullest potential to help handicapped people overcome barriers to employment. A simplified and expanded TJTC could operate to encourage, particularly small businesses, to hire disabled people. In addition, the credit could be used as an incentive to job retention after the onset of a disability and could also be used as an incentive to the promotion of disabled people after initial employment. The remainder of our testimony will focus upon specific ways in which the TJTC can be improved to meet these objectives.

A. A MEDICAL CERTIFICATION OF HANDICAP SHOULD REPLACE REFERRAL BY A VOCATIONAL REHABILITATION AGENCY WITHIN THE DEFINITION OF A TARGETED GROUP.

Under current law and regulations, an employer qualifies for the TJTC if the disabled person is referred by a vocational rehabilitation agency pursuant to the individual's written rehabilitation plan. In addition, approval of the state jobs services office must also be obtained in order for the employer to qualify for the credit. These steps represent an unwarranted administrative and paper work burden upon both the employer and the prospective employee.

Some handicapped job applicants, for example, those entering the job market after high school may never have received rehabilitation services from a vocational rehabilitation agency. Other prospective employee's may no longer have active case files at vocational rehabilitation agencies. In order to have his/her file reopened, the disabled person may need to cut through considerable bureaucratic red tape. From the employer's point of view, the amount of the current credit is small compared to the magnitude of the complexities involved in qualifying for it. The appropriate vouchers and/or approvals must be obtained from two government bureaucracies: the vocational rehabilitation agency and the state jobs services office. In addition, the employer may find that the prospective disabled employee was not referred by a vocational rehabilitation agency or that the job being applied for is not contemplated by the individual's written rehabilitation plan. Finally, unless all of these eligibility requirements are satisfied within a relatively short time frame, the employer may find that he has hired a disabled employee but nevertheless cannot qualify for the credit.

We recommend that a certification of a medically determinable handicapping condition will alleviate these difficulties and will greatly simplify administration of the TJTC. A suggested definition of the term "handicapped individual" is as follows: "an individual who has a medically determinable physical or mental impairment which substantially limits one or more of such individual's major life activities and which has lasted or can reasonably be expected to last for a continuous period of not less than 12 months." The Secretary should be empowered to prescribe regulations specifying the form and extent of acceptable medical proof which could either be filed with the return or produced by the taxpayer upon audit.

A medical certification process is currently used by the Internal Revenue Service to prove legal blindness for purposes of qualifying for an additional exemption available to legally blind persons or those claiming them as their dependents. We are unaware of any abuses associated with this certification procedure. In addition, because of the stigma associated with a handicapping condition, job applicants are generally reluctant to disclose a handicap to a prospective employer, unless there is an advantage to the prospective employee in doing so, e.g., a need for a reasonable job accommodation or other assistance. Thus, a medical certification procedure carries with it a built-in safeguard against abuse and will operate particularly in those cases in which the employer needs a hiring incentive the most; namely, situations in which the prospective employee needs a job accommodation or other assistance. Adoption of this recommendation will also greatly simplify the paper work burdens connected with the administration of the TJTC to the benefit of both employers and employees.

B. THE AMOUNT OF THE QUALIFIED FIRST-YEAR WAGES SHOULD BE INCREASED, THEREBY ENCOURAGING EMPLOYMENT OF MORE HIGHLY SKILLED DISABLED WORKERS.

We recommend that the amount of the first year's qualified wages should be increased from $6,000 to $20,000. This means that the cost to the Treasury for the TJTC would be a maximum of $10,000 before adjustment as a result of the employer's tax rate and salary expenses. Given the cost savings in Social Security and other benefits, the net effect to the Treasury would most certainly be in the plus column. If the first year credit amount were raised, the second year credit could be eliminated since training and other assistance would generally be provided during the first year. Adoption of this recommendation will also encourage employers to hire more highly skilled disabled people. As noted earlier, many blind and other disabled people are now graduating from college or other vocational programs. These individuals face numerous employment barriers, yet the amount of the qualified wages on which the credit can be taken is currently only $6,000--less than minimum wage. The current TJTC encourages employers to hire minimum wage employees but is not as significant an incentive to hire more highly skilled workers who face the same employment barriers. In addition, while some disabled people may be physically able to perform some types of lower skilled minimum wage jobs, other individuals may be more suited to jobs involving greater mental effort and less physical activity.

III. THE TARGETED JOBS TAX CREDIT COULD BE USED TO ENCOURAGE JOB RETENTION AND UPWARD JOB MOBILITY.

Under current law, the TJTC is available only for new hires and does not assist the employer faced with an employee who becomes disabled after initial employment. Large corporations are in a much better position than the small employer to accommodate employees' needs after they become disabled. This accommodation may include simple job restructuring, retraining or the provision of a sensory or communication aid. This accommodation can represent a cost to an employer. The employer may either incur the expense on behalf of the employee, require the employee to bear the cost, or simply may terminate the employee. Termination of a worker causes untold frustration and anguish to the worker and his or her family, not to mention the societal cost of welfare and unemployment benefits.

We recommend that the TJTC should be available to employers who retain an employee after the onset of a severe disability. Given the present job market, employers may find it easier to simply terminate a disabled employee and to replace him/her with another worker, particularly in lower skilled jobs. Availability of the credit in these situations may help to avoid this all too often tragic consequence of a disability.

We further recommend that the TJTC can be used as a tool to encourage upward job mobility of disabled workers. The credit could be used to make it more attractive for employers to purchase sensory or communications aids such as magnifiers or special computer interface devices needed for a disabled person to advance on the job. Here again the small employer may not be in a position to provide sensory or communications aids to an employee. Rehabilitation agencies are unable to provide assistance since vocational rehabilitation funds usually cannot be expended after initial placement. Although many disabled employees purchase their own aids using their own funds, others cannot afford to do so. Alternative financing arrangements such as loans or foundation assistance are also very limited. Thus, we need to explore ways in which the TJTC can be used to assist disabled people to progress not only into a job but also along the career ladder.

IV. CONCLUSION

The American Council of the Blind looks forward to working with the Committee to develop these and other proposals presented today as the reauthorization of the TJTC continues. Since most working people in the United States are employed by small business, we must focus on how the TJTC can better be utilized by this largest group of employers. We also believe that blind and other disabled people face unique employment barriers not faced by other individuals who are also members of targeted groups. For example, a welfare recipient may not need a sensory aid in order to perform a job. In addition, members of the other targeted groups may have a greater number and variety of jobs to choose from since these individuals are not restricted in terms of mobility, dexterity, hearing or sight. My point, Mr. Chairman, is simply this: we must continue to explore and to develop ways of encouraging employment of blind and other disabled people who face unique barriers to employment. Finally, Mr. Chairman, I think our President summed it up best during a recent signing ceremony at the White House in which a proclamation declaring the next ten years as the decade of the disabled was signed. The President said on November 28 and we wholeheartedly agree "whenever government puts welfare and charity before the opportunity for jobs, it misses the mark."

Thank you for allowing us to share our views with you today.

Senator HEINZ. Ms. Goodall.

STATEMENT OF PATRICIA GOODALL, TRAINING ASSOCIATE, REHABILITATION, RESEARCH AND TRAINING CENTER, VIRGINIA COMMONWEALTH UNIVERSITY, RICHMOND, VA

Ms. GOODALL. Hello, Mr. Chairman.

I don't know if I can improve upon that testimony. I would like to tell you a little bit about our organization and how helpful we have found the targeted jobs tax credit to be.

I am with the Virginia Commonwealth University Rehabilitation Research and Training Center in Richmond, VA. We are funded by a grant from the National Institute of Handicapped Research, of the U.S. Department of Education. The mission of our center is to provide research and training related to employment of mentally retarded individuals. At the same time, we are directly involved in the placement of mentally retarded adults into competitive employment.

Under previous State and Federal funds, we have placed approximately 150 mentally retarded adult citizens into 215 competitive jobs in the community during the last 5 years. The availability of the Federal tax credit for employers who hire the handicapped has been an extremely powerful incentive to businesses in the community to try out a handicapped worker.

Many employers are hesitant to work with the handicapped, but the TJTC provides them with the financial motivation to give it a try. Once the handicapped worker has shown that he or she is able to do the job, the employer has most often become a satisfied advocate of hiring the handicapped.

Ultimately, the use of the targeted jobs tax credit as a persuasive tool allows us to more easily and successfully place handicapped workers in the community.

As a matter of fact, we frequently encounter employers who specifically request TJTC eligible employees, and we also know of many employers who preferentially hire only TJTC eligible candidates for certain positions.

Ultimately, this results in the decrease in the number of disabled persons who are considered a tax burden on the public through Federal disability payments and other tax-related support services. Of the 150 mentally retarded citizens we have worked with, nearly all have been receiving some type of Federal assistance at the time of placement.

We work with moderately and severely mentally retarded adults. I have a scenario of a fellow here who is 26 years old and moderately mentally retarded. His IQ is probably in the range of about 50—average IQ is 100. He graduated from a special education program and attended an adult activity center, with no real work training.

When he was taken to a job interview for a pot-scrubbing position at a local restaurant, the employer was extremely skeptical that he could handle the job. Although we felt that this individual could be trained to perform the job successfully, he possessed few related work skills and was not a strong candidate for the position.

When the employer learned of the availability of the targeted jobs tax credit, he was persuaded to give Joe a try in the position.

He is presently entering his third year of employment as a pot scrubber at this local restaurant. He no longer receives Federal disability payments, and he is, in fact, the primary wage earner in his household. He performs his job competently, and both he and his employer are satisfied with the employment situation.

In closing, I would like to say that the full effect of the TJTC Program will be to change the business community's attitude toward hiring the handicapped, and I believe that this process has only just begun and that we really need to extend this program.

Should the program expire, the handicapped worker will ultimately suffer. In turn, the taxpayer will be called upon to bear the consequences.

Thank you.

Senator HEINZ. Ms. Goodall, thank you very much.

[Ms. Goodall's prepared statement follows:]

RRTC VIRGINIA COMMONWEALTH UNIVERSITY
Rehabilitation Research & Training Center
1314 WEST MAIN STREET • RICHMOND, VIRGINIA 23284-0001 • PHONE (804) 257-1851

February 29, 1984

Roderick DeArmant
Chief Council
Senate Committee on Finance
SD 219 Dirksen
Washington, D. C. 20510

Dear Mr. DeArmant:

Attached is a copy of my testimony to be presented before the Senate Committee on Finance on March 2, 1984.

I am with the Virginia Commonwealth University Rehabilitation Research and Training Center (VCU-RRTC) which is directly involved in the job training and placement of mentally retarded individuals into competitive employment. Over the past five years we have placed approximately 150 retarded adults into 215 jobs in the community. Since we also provide long-term follow-up services to all our working clients, I can state that the availability of the federal Targeted Jobs Tax Credit (TJTC) program is crucial not only in the initial hiring, but the job retention, of our handicapped workers.

We enthusiastically advocate the movement of disabled persons from recipients of government disability payments to tax-paying citizens. We believe that the federal TJTC program is an essential part of this transition by providing an incentive for employers to hire the handicapped. We sincerely believe that many of our handicapped workers would not have been given the opportunity to become productive, tax-paying individuals without the existence of the federal TJTC program.

We urge your committee to support extension of this vital program.

Sincerely,

Patricia A. Goodall

Patricia A. Goodall
Training Center
Rehabilitation Research &
Training Center

PAG/sw

"Improving the Employability of Mentally Retarded Citizens"

RRTC VIRGINIA COMMONWEALTH UNIVERSITY
Rehabilitation Research & Training Center
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February 29, 1984

Senator John Heinz
469 Russell Senate Office Building
Washington, D. C. 20510

Dear Senator Heinz:

I am with the Virginia Commonwealth University Rehabilitation Research and Training Center in Richmond, Virginia. The Center is funded by a grant from the National Institute of Handicapped Research of the U. S. Department of Education. The mission of the Center is to provide research and training related to employment of mentally retarded individuals. We are also directly involved in the placement and training of mentally retarded adults into competitive employment.

Under previous state and federal funds, we have placed approximately 150 mentally retarded citizens into 215 competitive jobs in the community over the past five years. As the person responsible for job development in the community, I can emphatically state that the federal Targeted Jobs Tax Credit (TJTC) program has greatly affected our success in approaching employers to hire the handicapped.

The availability of the federal tax credit for employers who hire the handicapped is an extremely powerful incentive to businesses in the community to try out a handicapped worker. Many employers are hesitant to work with the handicapped, but the TJTC provides them with the financial motivation to give it a try. Once the handicapped worker has shown that he or she is able to do the job, the employer has most often become a satisfied advocate of hiring the handicapped. Ultimately, the use of the TJTC as a persuasive tool allows us to more easily and successfully place handicapped workers in the community.

As this federal tax credit program becomes more widely recognized in the business community, we frequently encounter employers who specifically request TJTC eligible employees. In fact, we know many employers who preferentially hire TJTC eligible candidates.

This, in turn, results in a decrease in the number of disabled persons who are considered a tax burden on the public through federal disability payments and other related tax-supported services (such as rehabilitative services and adult activity centers). Of the 150 mentally retarded individuals we have placed into competitive employment, nearly all have been recipients of some type of federal assistance.

I believe that our Center's experiences with the use of the federal TJTC program in the competitive employment of mentally retarded persons is representative of similar programs in the state of Virginia and throughout the entire nation (see attached statistical information). The following is a typical scenario describing the job placement of a severely disabled/mentally retarded individual.

Joe is 26 years old and moderately mentally retarded. Since he graduated from a special education program at age 22, he has attended an adult activity center where he engaged in such tasks as folding and inserting into envelopes, collating, and assembly work, as well as social and leisure activities.

When Joe was taken to a job interview for a pot scrubbing postion in a local restaurant, the employer was skeptical that Joe could handle the job. Although we felt that Joe could be trained to perform the job successfully, he possessed few related work skills and was not a strong candidate for the position. The employer was persuaded to give Joe a try in the position when he learned about the availability of the TJTC. In effect, during an extended "trial" period, the company receives a federal tax credit on the disabled worker's wages. This arrangement offset the risk the employer felt he was taking when he hired the mentally retarded young man.

Joe is presently entering his third year of employment as a pot scrubber. He no longer receives federal disability payments and is, in fact, the primary wage earner in his household. Joe performs his job competently and both he and his employer are satisfied with the employment situation.

Traditionally, mentally retarded individuals like Joe had little or no chance of landing a job in the competitive market. The federal TJTC program provides the leverage necessary to help these workers gain entry into competitive jobs. As more and more handicapped individuals like Joe are given the chance to prove themselves as capable workers, the full effect of the TJTC program will have been to change the business community's attitude toward hiring the disabled. This process has only just begun.

I would like to thank you for the opportunity to advocate for the extension of the federal Targeted Jobs Tax Credit program which expires December, 1984. Should this program expire, I believe that the handicapped worker will ultimately suffer; in turn, the tax payer will be called upon to bear the consequences.

Sincerely,

Patricia A. Goodall

Patricia A. Goodall
Training Associate
Rehabilitation Research &
Training Center

PAG/sw

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Targeted Jobs Tax Credit information

Obtained via personal communication with David Robison, 48 "G" SW, Washington, DC 20024; (202) 646-1566. Mr. Robison is associated with a group that is doing some congressional lobbying in favor of the extension of the TJTC. The group is: Committee for Employment Opportunities, 1101 Connecticut Ave. NW, 5th Floor, Washington, DC 20036.

19 January 1984
Patricia A. Goodall

Statistical information for 1983 Fiscal Year ending 9/30/83:

***Total TJTC nationwide for every eligibility group:

1,286,947 vouchers issued
431,182 certificates issued

Nationwide for the handicapped group:

78,683 vouchers
25,412 certificates

The state of Virginia is in Region III, which consists of Delaware, District of Columbia, Maryland, Pennsylvania, West Virginia, and Virginia.

Totals for the Region:

115, 786 vouchers
36, 776 certificates

Handicapped: 8,331 vouchers
2,482 certificates

Totals for Virginia:

33,203 vouchers
10,340 certificates

Handicapped: 2,168 vouchers
822 certificates

By other groups:

Youth (60% of total):	6,536	certif.
Veterans:	453	"
Ex-Convicts:	724	"
Handicapped:	822	"
CETA:	4	"
General Assistance:	34	"
SSI Recipients:	14	"
AFDC Recipients:	1,161	"
Summer Youth:	592	"

Virginia has less than one-third of the total vouchers issued for the Region, but has almost one-third of the certificates issued. Virginia has a better percentage of vouchers that become certificates than any other state in the Region.

Senator HEINZ. Sister Judith.

STATEMENT OF SISTER JUDITH SCHLOEGEL, C.S.J., EXECUTIVE DIRECTOR, LEEO, WASHINGTON, DC

Sister JUDITH. Good afternoon, Senator Heinz.

My name is Sister Judith Schloegel, and I am the executive director of an ex-offender employment program known as "Liberation of Ex-Offenders Through Employment Opportunities," or LEEO.

LEEO is a Washington, DC, community-based program funded by the Washington, DC, Private Industry Council and designed to secure suitable employment for male and female ex-felons.

To date, 218 companies in the Metropolitan Washington area have hired LEEO participants. Six hundred and forty-four training and/or job opportunities have been secured for ex-felons.

There are an estimated 4,000 unemployed ex-offenders on the streets of Washington today. The TJTC is a significant tool in their job placement. Seventy-five percent of those referred to LEEO have less than 12 grades education, have less than 3 months work experience, most have children, all have been convicted of serious felonies. The obstacles they face in a competitive labor market within a city plagued by high unemployment demand employer incentives if suitable training and/or job opportunities are ever to be secured.

Of the 664 placements through LEEO, 269 placements have been made with companies who hired ex-felons on condition of receiving the tax credit.

On behalf of the thousands of ex-offenders seeking employment today as well as for the 600,000 persons currently incarcerated, many of whom will be released over the next 5 years and need employment for a successful transition back into society, I strongly urge that the TJTC be extended.

I offer four important reasons for this 5-year extension:

One. The TJTC is a viable incentive in encouraging prospective employers to train and/or hire job-ready ex-felons.

Two. The TJTC provides the unskilled, inexperienced ex-felon with a tool by which he or she may approach a prospective employer with a sense of credibility.

Three. The cost of extending the TJTC is far less than the outrageous cost to America's taxpayers for incarcerating thousands of persons who would themselves, if hired, be taxpaying, contributing members of society.

Four. Chief Justice Warren Burger has introduced the model of factories within fences. Prison industry would train and prepare persons for the world of work, thereby easing the current tension of inmate idleness within the institutions. Job placement would be expedited, thereby reducing the serious condition of overcrowding within the prisons.

The targeted tax credit, used creatively, could be one of the most significant factors in the future development of prison industry in the United States.

Thank you.

Senator HEINZ. Sister Judith, thank you very much.

[Sister Judith Schloegel's prepared statement follows:]

DATE: March 2, 1984
SUBJECT: SENATE SUBCOMMITTEE HEARING ON THE TARGETED JOBS TAX CREDIT
TESTIMONY BY: DR. JUDITH SCHLOEGEL, C.S.J.

Good afternoon, Senator Heinz and Members of the Subcommittee. My name is Dr. Judith Schloegel. I am a Roman Catholic Sister and the Executive Director of an ex-offender employment program, Liberation of Ex-Offenders Through Employment Opportunities known as LEEO. LEEO is a Washington, D. C. Community-based program funded by the Washington,D.C. Private Industry Council, designed to secure suitable employment for male and female ex-felons. The services provided through LEEO include: thorough screening; comprehensive job readiness; pre-employment counseling; job development; job placement; and a one-year period of follow up supervision and supportive services. Since I began the program in 1977, over 5,000 ex-felons have requested job assistance. To date, 218 companies in the metropolitan Washington area have hired LEEO participants. 775 training and/or job opportunities have been secured. The cost per participant is less than $1500. per person (compared to $16,000. to $40,000. to incarcerate one person for one year) and the recidivism rate is less than 10% (compared to a national estimate of 70%.)

The Targeted Jobs Tax Credit (TJTC) is designed to give an ex-offender "who needs a break the chance to become a productive wage-earner". There are an estimated 4,000 unemployed ex-offenders on the streets of Washington, D.C. today. The TJTC is a significant tool in their job placement. 75% of those referred to LEEO have less than 12 grades education; have less than three months work experience; most have children; all have been convicted of serious felonies. The obstacles they face in a competitive labor market within a city plagued by high unemployment demand employer-incentives if suitable training and/or job opportunities are to ever be secured. The TJTC is such an incentive. Of the 775 placements through LEEO, 269 were made with companies who hired ex-felons on condition of receiving this tax credit. Among these businesses are: the Marriott Corporation; the Singer Aerospace and Marine System; the Truland Corporation; Unified Services; the Bureau of National Affairs; Fort Myer Construction Company; the Washington Convention Center; and the Shirley Contracting Corporation. I quote two employers who speak to the importance of the TJTC. 1) Mr. James Hayes, Personnel Manager of Macro Systems: "I could not have readily placed employes without the Targeted Jobs Tax Credit. It has allowed my company to give employment opportunities to individuals who would not have been given a chance otherwise."

DATE: March 2, 1984
SUBJECT: SENATE SUBCOMMITTEE HEARING ON THE TARGETED JOBS TAX CREDIT
TESTIMONY BY: DR. JUDITH SCHLOEGEL, C.S.J.

2) Mr. Fred Kramer, Personnel Specialist of the Marriott Gateway Hotel: "I have been involved with the TJTC program since July, 1981. During this time I have discovered that the program is very beneficial to both the employer and applicant alike. From an employer's point of view, (especially in a profit-oriented industry), tax breaks are greatly appreciated. But the TJTC program also gives a feeling of satisfaction that goes along with it. When hiring an ex-felon or handicapped individual, we are taking a chance. However, when they turn out to be valuable employes, which many have, we gain a great deal of satisfaction. Some of these employes may not have been given the chance if it had not been for the TJTC program."

On behalf of the thousands of unemployed ex-offenders seeking employment today, as well as for the 600,000 persons currently incarcerated- many of whom will be released and need employment for a successful transition back into society- I strongly urge that the TJTC be extended.

IMPORTANT REASONS FOR THIS EXTENSION INCLUDE:

1. The TJTC is a viable incentive in encouraging prospective employers to train and/or hire job-ready ex-felons.
2. The TJTC provides the unskilled, inexperienced ex-felon with a tool by which he/she may approach a prospective employer with a sense of credibility.
3. The cost of extending the TJTC is far less than the outrageous cost to America's tax payers for incarcerating thousands of persons who would themselves - if hired - be contributing, tax-paying citizens.
4. Chief Justice Warren Burger has introduced the model of "Factories Within Fences". Prison Industry would train and prepare persons for the world of work, thereby easing the current tension of inmate idleness within the institutions. Job placement would be expedited, thereby reducing the serious condition of over-crowding within the prisons. The Targeted Jobs Tax Credit, used creatively, could be one of the most significant factors in the future development of prison industry in the United States.

Senator HEINZ. Mr. Kirk.

STATEMENT OF CLAUDE KIRK, JR., DIRECTOR, VOCATIONAL SERVICES, HABILITATIVE SYSTEMS, INC., CHICAGO, IL

Mr. KIRK. Mr. Chairman, it is a privilege and an honor to come before you today to present my testimony on the extension of the targeted tax credit.

My name is Claude Kirk. I am director of vocational services for Habilitative Systems, Inc., a human social service agency in Chicago. We are a not-for-profit rehabilitation agency serving the inner city of the West Side of Chicago. We deal with all disabilities and have a wide range of programs, ranging from school children to formal job training programs.

In my capacity as director of vocational services, it is my responsibility to establish job training programs for the handicapped and for the economically disadvantaged in my service area. This is an area where unemployment exceeds 18 percent and there are virtually no community resources to ameriorate these conditions. In my capacity, I have seen first hand the benefits the targeted jobs tax credit has provided to the people whom I serve.

Among our programs is one in which we manufacture disposable pillows for Amtrak and several airlines. We have a sheltered workshop located at 415 South Kilpatrick in Chicago, where these pillows are made. The people we hire to manufacture these pillows are predominately hard-core unemployed who qualify for the targeted jobs tax credit in several categories.

We also operate a program where we provide basic job readiness training. The pool of employees who complete this training are referred to a number of large and small businesses who have been encouraged to hire them because of the existence of this credit. I believe that more opportunities exist today because of the availability of the TJTC Program.

One year ago we began an on-the-job training program with the Chicago regional office of McDonald's Corp. Participants in this program, which we call McJobs, are disabled, economically disadvantaged, or often both. They undergo an extensive training program in nearby McDonald's restaurants for a period of 2 to 3 months, depending on their particular disability. This training consists of their working one-to-one with a McDonald's employee who serves as a job coach to learn basic job skills and the various duties associated with employment in a McDonald's restaurant. Once the training is completed, they become employees of a McDonald's restaurant and are mainstreamed into the McDonald's workforce.

I wish all of you could attend one of the graduation ceremonies for a McJobs class and see them receive their silver spatulas for their efforts in front of their parents, friends, and peers. McDonald's recently received an award from Governor Thompson for its role in this program.

I truly believe that while these activities would still be supported by employers, the presence of the targeted jobs tax credit gives them an additional meaningful economic incentive to train and hire disadvantaged people.

I further believe that we have only begun to understand and use this program, and that it will become more effective as employers and others learn about it. For this reason, I urge you to extend it by enacting S. 2185 for 5 years, so that organizations like Habilitative Systems and employers will use it to the benefit of the disadvantaged who want and need employment.

Thanks for this privilege.

Senator HEINZ. Thank you very much, Mr. Kirk.

[Mr. Kirk's prepared statement follows:]

STATEMENT BY
Claude Kirk,
Director of Vocational Services for Habilitative Systems, Inc.
March 2, 1984
ON TARGETED JOBS TAX CREDIT

Mr. Chairman and members of the committee, it is a privilege and honor to come before you today to present my testimony on the extension of targeted tax credit.

My name is Claude Kirk, and I am Director of Vocational Services for Habilitative Systems, Inc. a human/social service agency in Chicago. We are a not-for-profit rehabilitation agency serving the inner city West Side of Chicago. We deal with all disabilities and have a wide range of programs, ranging from school children to formal job training programs.

In my capacity as Director of Vocational Services, it is my responsibility to establish job training programs for the handicapped and for the economically disadvantaged in my service area. This is an area where unemployment exceeds 18% and where there are virtually no community resources to ameliorate these conditions.

In my capacity, I have seen first-hand the benefits the Targeted Jobs Tax Credit has provided to the people whom I serve.

Among our programs in one to manufacture disposable pillows for Amtrak and several airlines. We have a sheltered workshop located at 415 S. Kilpatrick Chicago, where these pillows are made. The people who we hire to manufacture these pillows are predominantly hard-core unemployed who qualify for Targeted Jobs Tax Credit in several categories.

We also operate a program where we provide basic job readiness training. The pool of employees who complete this training are referred to a number of large and small businesses who have been encouraged to hire them because of the existence of this credit. I believe that more opportunities exist today because of the availability of the TJTC program.

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Once the training is completed, they become employees of a McDonald's restaurant and are mainstreamed into that McDonald's workforce.

I wish all of you could attend one of the graduation ceremonies for a "McJobs" class and see them receive a silver spatula for their efforts, in front of their parents, friends and peers. McDonald's recently received an award from Governor Thompson for its role in this program.

I truly believe that while these activities would still be supported by employers, the presence of the Targeted Jobs Tax Credit gives them an additional meaningful economic incentive to train and hire disadvantaged people.

I further believe that we have only begun to understand and use this program and that it will become more effective as employers and others learn about it. For this reason, I urge you to extend it by enacting S. 2185 for five years, so that organizations like Habilitative Systems and employers will use it to the benefit of the disadvantaged who want and need employment.

Thanks for the privilege of appearing before you today to discuss this vital program.

Senator HEINZ. Mr. Brown.

STATEMENT BY LARRY BROWN, PRESIDENT, 70001 LTD.—THE YOUTH EMPLOYMENT CO.—WASHINGTON, DC

Mr. BROWN. Mr. Chairman, thank you for the opportunity to testify.

I am Larry Brown, President of 70001 Ltd.—the Youth Employment Co.—but I also represent today the 29 member agencies of the National Youth Employment Coalition.

I appear before you to lend strong endorsement to the proposed extension.

For the past 14 years, 70001 has been preparing a very special group of young people, high school dropouts, for the world of work. Since 1976 we have been able to place 20,000 high school dropouts into jobs with private employers. We achieved this success, despite enrolling youth who face serious obstacles to employment. The targeted jobs tax credit is a powerful incentive and an invaluable tool in our efforts to place disadvantaged youths.

Putting these youngsters to work certainly requires a well-designed and well-managed training program, but still these youths represent a risk to the potential employer. The risk equates to cost, and the targeted jobs tax credit can often serve as the determinate which mitigates that cost.

With that background, I am pleased to offer you four recommendations:

The first and most obvious is to pass the 5-year extension. The strongest argument I can make to support the extension is that it will finally send State administrating agencies the message that the TJTC is here to stay. Currently, inconsistent State administration is the biggest barrier we face to effectively utilizing the credit.

Furthermore, a 5-year extension will add consistency to the technical implementation of the targeted jobs tax credit. Previously, each year's extension confused employers and certifying agencies through the absence of IRS guidelines regarding employer liability.

Second, extension for 5 years will preserve the targeted jobs tax credit for the Summer Youth Employment youths. The summer credit becomes particularly important this year, as most of our major cities face huge Federal cuts in funds available for Summer Youth Employment. Formerly, funds were targeted to urban areas; but under the Job Training Partnership Act the same number of youths will be served, but funding will favor rural and suburban areas. As a result, it is important that incentives such as the TJTC be available in our cities.

Third, I encourage you to encourage coordination between the targeted jobs tax credit and other employment training activities. Currently, many of our national employment training programs don't work in coordination with each other. I recommend that in order to encourage coordination, what you do is encourage the State employment services to allow community-based organizations to certify youngsters eligible for the targeted jobs tax credit.

Fourth, I encourage you to expand the targeted jobs tax credit to include 16- and 17-year-old high school dropouts Currently, 16- and 17-year-old youths are only included if they are enrolled in State-certified cooperative education programs. It is an unfortunate irony that if these 16- and 17-year-old high school dropouts were enrolled in school, and presumably better off, they would be TJTC eligible. But because they are out of school, measurably more unemployable and at greater risk, they cannot benefit from the targeted jobs tax credit.

On behalf of the hundreds of thousands of young people served by the members of the National Youth Employment Coalition, I thank you for the opportunity to share our recommendations.

Few of us would disagree that young people will form the foundation of our national defense and the quality of our American life, but millions are in danger of being permanently left behind if they are unable to attain education, training and work. The targeted jobs tax credit is an essential resource in our ability to provide it.

Thank you.

Senator HEINZ. Mr. Brown, thank you.

[Mr. Brown's prepared statement follows:]

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600 Maryland Ave. SW
Washington, DC 20024
202/484-0103

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U.S. Representative

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Chairman
Democratic National Committee

Testimony of:

Larry Brown, President

70001 Ltd. - The Youth Employment Company

Before:

Senate Subcommittee on Economic Growth,
Employment and Revenue Sharing

The Honorable John Heinz, Chairman
March 2, 1984

Mr. Chairman, members of the Subcommittee, I am honored by the opportunity to testify today on the matter of extending the Targeted Jobs Tax Credit (TJTC) for an additional five years. I am Larry Brown, President of 70001, Ltd. — The Youth Employment Company, but I also represent today the 29 member agencies of the National Youth Employment Coalition. I appear before you to lend strong endorsement to the proposed extension and to applaud Chairman Heinz for introducing it.

To provide a perspective for my recommendations, please permit me to tell you a bit about 70001 and our history of training and placing disadvantaged young people exclusively with private employers.

For the past 14 years, 70001 has been preparing a very special group of young people — high school dropouts — for the world of work. Since 1976, when 70001 organized as a private public service corporation, some 20,000 young high school dropouts have been placed into jobs with private employers. This figure represents 80 percent of those who complete training.

We achieve this success despite enrolling youth who face serious obstacles to employment. Most of the young people in the 57 programs in the 70001 network are 18 years old or younger, from minority groups and female. Almost one-third are parents and 7 percent have more than one child. More than 30 percent are from families receiving AFDC payments; half are from families in which neither parent graduated from high school. Eighty percent read below a ninth grade level and many are functionally illiterate. Few have ever held a job for more than two months and more than a third have never been gainfully employed.

How, then, did 70001 place more than 1,500 of these young people into jobs last year? One important factor is the strong private involvement in all phases of the program. Through our National Business Associates, more than 60 major corporations and associations provide valuable guidance, direction and financial support. Locally, hundreds of business men and women advise program staff.

The Targeted Jobs Tax Credit is a powerful incentive and invaluable tool in 70001's efforts to place disadvantaged youth. Putting these youngsters to work certainly requires a well designed and well managed training program, but still these youth represent risk to a potential employer. That risk equates to cost and the TJTC often can serve as the determinant which mitigates the cost.

It is no exaggeration to say that without TJTC, 70001's task of placing youth would be immeasurably more difficult. Let me offer some examples:

- In Indianapolis, 90-95 percent of participants are TJTC eligible. Among the employers there who have taken advantage of the tax credit are the Eli Lilly Company, the Hyatt Regency hotel, L.S. Ayers Department Store, Kiwanis International, and Pizza Hut. At the Hyatt Regency alone, seven graduates from 70001 have been hired with the aid of TJTC. All started work earning $3.80 per hour.

- In Wilmington, Delaware, 85-90 percent of the participants are TJTC-eligible and several employers actively recruit them. These include Wilmington Drygoods, the city's major retailers and American Scrap Metal Co.

TJTC is a major job placement tool in the other 55 programs in the 70001 network. But TJTC's impact is best illustrated in human terms. Allow me to share with you just two examples:

- In Hanover, Pennsylvania, 21-year-old Louis Lowe completed his 70001 training and was hired by Keystone Seneco, Inc. at a starting salary of $5.25 per hour. His employers says TJTC was a major factor in the decision to hire Louis. Seven months after starting work, Louis has already earned one raise and is in line for a promotion to machinery maintenance supervisor.

- Dan Staples of Indianapolis, had been jobless for two years when he enrolled in 70001. As a Vietnam-era veteran, he was eligible for TJTC. Midwestern Tree Experts hired him claiming the tax credit in the process. Now Dan is earning a good salary in the sales department and has married.

These are just two of the many thousands of men and women who have become active participants of the American workforce after being trained by the member agencies of the National Youth Employment Coalition and certified for the TJTC.

With that background, I am pleased to share with you the Coalition's specific recommendations.

RECOMMENDATIONS

1. Pass the Five-Year Extension

70001 and the Coalition strongly support the five-year extension contained in S.2185. We are not alone. Every year since 1980, the Administration has proposed elimination of TJTC. Yet, every year more than 90 percent of the Senate has voted to extend the tax credit.

The strongest argument I can make to support the extension is that it will finally send state administrating agencies the message that the TJTC is here to stay. Currently, inconsistent state administration is the biggest barrier we face to effectively utilizing the credit. This is partly the result of there being no incentive to institutionalize the certification process. A five-year extension will provide the incentive.

Furthermore, a five-year extension will add consistency to the technical implementation of TJTC. Previously, each year's extension confused employers and certifying agencies through the absense of IRS guidelines regarding employer liability and technical changes in such items as retroactive certification. A five-year extension would solve these problems and encourage wider participation.

2. Preserve The TJTC for Summer Youth Employment

The Summer Youth Targeted Jobs Tax Credit is an innovation enacted last year. It worked and worked well. In its first test last summer hundreds of 70001's employers hired youth because of the TJTC. The five-year extension will perserve this important summer resource.

The summer TJTC becomes a particularly important tool in 1984 as most of our major cities face cuts in the federal funds available for summer youth employment averaging 13%.

The cuts outlined below are due to a shift in allocation formulas prompted by the Job Training Partnership Act. Formerly, funds were heavily targeted to urban areas. Under JTPA, the same number of youth will be served, but funding formulas favor rural and suburban areas. This re-distribution of summer jobs money begins this summer. As a result, it is important that incentives such as TJTC be available to maintain the level of summer employment opportunities in cities. Active promotion of the summer TJTC in these cities could draw in enough participation by private employers to substantially offset these cuts.

Summer Youth Employment Programs*
Federal Funding Availability

(IN MILLIONS)

Service Delivery Area	Summer 1983	Summer 1984	Difference	% Difference
Birmingham, AL	$ 3.86	2.63	- $ 1.23	- 32
Mobile, AL	1.76	1.47	- .29	- 16
Los Angeles, CA	12.34	11.51	- .83	- 7
Pueblo, CO	.364	.692	+ .328	+ 90
Bridgeport, CT	2.67	1.70	- .97	- 36
Hartford, CT	1.70	1.65	- .05	- 3

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*Congressional Record, Vol. 130, #13, February 8, 1984.

Federal Funding Availability (con't.)

New Haven, CT	1.33	1.17	- .16	- 12
Jacksonville, FL	1.90	1.50	- .40	- 21
Tampa, FL	1.26	.997	- .263	- 21
Des Moines, IA	1.08	1.07	- .01	- 1
Chicago, IL	24.08	12.70	-11.38	- 47
Indianapolis, IN	3.90	2.40	- 1.50	- 39
Worcester, MA	.911	.946	+ .035	+ 4
Baltimore, MD	5.40	4.50	- .90	- 17
Ann Arbor Area, MI	1.70	1.40	- .30	- 18
Minneapolis, MN	1.424	.885	- .539	- 38
Kansas City, MO	2.20	1.90	- .300	- 14
St. Louis, MO	2.85	1.80	- 1.05	- 37
Butte Rural CEP, MT	.26	.40	+ .14	+ 54
New York, NY	30.30	24.30	- 6.0	- 20
Cleveland, OH	5.16	2.99	- 2.17	- 42
Columbus, OH	2.50	2.40	- .10	- 4

3. Encourage Coordination Between TJTC and Other Employment Training Activities

I recommend that the subcommittee encourage coordination between TJTC and the Job Training Partnership Act by providing community-based organizations the authority to conduct certification of TJTC eligible participants.

Such a mandate would be one more step toward creation of a truly unified system of employment training. TJTC, JTPA and vocational education — the three main components of our current job training system — were created and continue to operate in a public policy void. Each program has similar objectives and all prepare, train and place the economically disadvantaged and the handicapped. Yet, professionals in these three programs often labor in separate vineyards. With Congressional vision and leadership, we can bring about a measure of coordination among these valuable programs and begin building a comprehensive national policy of employment training.

The current lack of coordination is most pronounced in the summer. The summer jobs program, for example, has yet to forge linkages with agencies vital to its success, especially the Employment Service, which is responsible for vouchering and certifying TJTC eligibility. Having little experience in dealing with youth and overburdened with other responsibilities, the Employment Service has so far not done a good job of reaching and recruiting youth for the summer jobs program, nor has the Employment Service "sold" TJTC to employers.

70001 recommends that the Employment Service be encouraged to allow community agencies (such as 70001) to conduct the vouchering of potential TJTC-eligible youth as part of the normal intake process. At our program in Jamestown, New York, for example, the assistant director of the Boys Club which administers the program has been licensed as a TJTC certifier. As a result, all youth who enter 70001 are certified on the spot if they are eligible. Client certification is a time-consuming process easily handled by agencies that provide employment training and related services to youth. Such decentralized procedures would streamline intake and certification for disadvantaged clients, as well as service providers.

4. Expand TJTC to Include 16 and 17 Year-Old High School Dropouts

Streamlining TJTC procedures is important, but expanding eligibility for certain out-of-school youth is even more so. I am speaking in particular about economically disadvantaged high school dropouts who participate in training programs such as 70001, OICs of America, and others, especially those listed in the Job Training Partnership Act. Congress had the opportunity last session to move in this direction through S.900, a bill sponsored by Sen. Heinz to support OIC.

Including all community-based organizations would be an even more positive step, reaching into thousands of communities. Currently, to be TJTC-eligible youth in employment training programs must be 18-19 years old and economically disadvantaged, or 16-19 years old and enrolled in a state certified cooperative education program. Youth ages 16-17 are eligible only for the summer jobs program. It is an unfortunate irony that if these 16 and 17 year old high school dropouts were enrolled in school, and presumably better off, they would be TJTC eligible. But because they are out of school, measurably more unemployable and at greater risk, they cannot benefit from the TJTC.

The following statistics for October 1981 from the Employment and Training Report of the President clearly portray the disproportionate representation of dropouts among the unemployed:

	Unemployment Rates	
	Graduates	Dropouts
White	17.1%	29.0%
Black	53.5%	73.1%

Furthermore, the National Center for Educational Statistics reports that 28% of the young people who enter the ninth grade across America will never graduate, a 3% increase in the las• ten years. One million youth a year are leaving school and Aspira reports that 80% of the Hispanic youth in New York City never graduate.

Lack of educational attainment is not only reflected in the unemployment rates but also impacts earnings for years to come. The following are some important figures comparing annual mean earning of males and females* based on levels of educational attainment.

	MALES	FEMALES
8th grade or less	$ 10,244	$ 5,149
Some high school	12,033	5,701
High school grads	15,900	8,063
Completion of 4 years college	26,970	12,979

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*Based upon Bureau of Census "Consumer Income" table 48, Education and Total Money Earning Persons 18 years old and over, Current Population Report series, p. 60, No. 137.

Congress has made cooperative education one of the categories where 16 and 17 year old youth are eligible for TJTC and more than half of all certifications have come from that category*. Unfortunately, too few economically disadvantaged youth stay in school and even fewer enroll in cooperative education programs.

When the youth do dropout, they end up in programs such as 70001 and OIC; programs very similar in design and intent to cooperative education programs. In fact, 70001 was originally a demonstration project of the Distributive Education Clubs of America (DECA). Yet, 70001 and other training and education programs have never been officially recognized as cooperative education efforts. As a result, 16 and 17 year old dropouts enrolled in our programs cannot avail themselves of the TJTC.

We implore you to erase this artifical distinction and grant TJTC eligibility to 16 and 17 year old out-of-school youth enrolled in work readiness and education programs.

Conclusion

On behalf of the hundreds of thousands of young people served by the members of the National Youth Employment Coalition, I thank you for the opportunity to share our experience and recommendations. Few of us would disagree that young people will form the foundation of our national defense and the quality of American life, but millions are in danger of being permanently left behind if they are unable to attain education, training and work. The TJTC is an essential resource in our ability to provide it.

I applaud Senator Heinz's leadership and our young people in Pennsylvania appreciate his participation as a 70001 Congressional Associate.

70001 and the National Youth Employment Coalition stand ready to assist you in whatever way we can.

Thank you.

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*"Putting the Targeted Jobs Tax Credit Back to Work," Northeast Midwest Institute. 1980.

Senator HEINZ. Mr. Ethridge.

STATEMENT OF WILLIS ETHRIDGE, DIRECTOR OF REHABILITATION TRAINING, NATIONAL ASSOCIATION OF THE DEAF, SILVER SPRING, MD

Mr. ETHRIDGE. Mr. Chairman, we thank you for the opportunity to speak before you this afternoon.

I represent the National Association of the Deaf. I am the director of rehabilitation and training with the association.

The association has been in continuous existence for 104 years. We are the largest handicapped consumer organization in the country.

We support the continuation of TJTC, because through our use of it in our rehabilitation and training program and in our placement efforts, we have found that employers have become more and more open to this tool to provide opportunities for deaf and hearing-impaired persons to prove their skills and their worth as valuable, dependable employees in their businesses.

I did a quick review of our case files and some followup, and I found that those we placed back in 1978 through the use of this tool, had a retention rate of 70 percent of those who were placed at that time. They are still in the employ of the companies in which they were placed.

I shall not drag this out this afternoon, since it is a Friday afternoon. I shall simply say again, we strongly support and urge the passage of this bill.

Senator HEINZ. Thank you very much, Mr. Ethridge.

[Mr. Pimentel's statement, delivered by Mr. Ethridge, follows:]

Statement of

Albert T. Pimentel

Executive Director
National Association of the Deaf

Before the

Senate Finance Committee

Hearings on
Targeted Job Tax Credit
S. 52815

March 2, 1984

The National Association of the Deaf (NAD) is a consumer organization representing the social, educational, legislative, and economic interests of hearing impaired persons in this country. The NAD was established in 1880 and has been in continuous existence for 104 years. We are the oldest and largest handicapped consumer organization in the country, representing a hearing impaired population of 16½ million citizens. Our membership consists of persons from all over the United States including affiliated State Associations in all 50 states and the District of Columbia.

Our work includes, but is not limited to: ensuring that deaf citizens enjoy the same rights and privileges that all American citizens are entitled to; elimination of discriminatory practices against deaf people through ongoing support of our Legal Defense Fund; advocating for improved programs of education, vocational training, and social, mental health, and rehabilitation services throughout the country; serving as an information clearinghouse on deafness; and publishing books, and a newspaper and magazine devoted to deafness-related topics which have nationwide circulations.

Specifically relevant to the proposed Targeted Job Tax Credit Bill is our major in-house effort in the area of rehabilitation and training of deaf and deaf/multiply-handicapped individuals.

In keeping with the National Association of the Deaf's concerns for the educational and economic interests of deaf persons, we established a Rehabilitation and Training Program in 1977 within our Home Office located in Silver Spring, Maryland. We provide direct services to deaf residents of Montgomery and Prince George's Counties, Maryland and the District of Columbia. This program was designed to be the model for other localities across the country.

A profile of clients we have served indicates as many as 60% were having difficulty in making the transition from high school to the job market. The remainder of the clients were chronically unemployed because of a) resistance by employers to hire persons with communication problems and b) lack of understanding by our handicapped clients of their responsibilities to employers.

The philosophy of the program is to build upon the strengths of clients. Job training skills in clerical areas and mail handling skills are provided. These classes are instructed by skilled deaf persons who have succeeded and who now serve as role models for clients. Client counseling, placement, and follow-up services are provided.

In 1980, services were expanded to include Vocational Evaluation and Work Adjustment Training. It was also in 1980 that the program was duplicated at our Branch Office in

Indianapolis, Indiana. The overall program has been serving 240 deaf clients annually.

During the first three years of operation, 80 to 95% of our clients were placed in competitive unsubsidized employment. It is projected that the placement rate for 1984 will be no less than 80%.

We also established and worked jointly with our affiliated State Association in Massachusetts in the operation of Developmental Evaluation and Adjustment Facilities (D.E.A.F., Inc.), a rehabilitation and psychological services center for deaf and hard of hearing residents of the New England area.

Because of our determination to ensure that our deaf citizens are given every possible opportunity to enter the job market in this country, I am before you to support continuation of the Targeted Job Tax Credit which passage of S. 52815 would ensure. We ask that authorization be for a minimum of five years. Our support is based upon the experiences of our NAD Rehabilitation and Training Program staff members who have been involved in the job placement of deaf clients with various companies in the private sector. In achieving job placements, our placement specialists have utilized the Targeted Job Tax Credit as an incentive for employers to provide opportunities for deaf applicants to prove their skills and value as loyal, dependable employees. The majority of placements achieved through the Targeted Job Tax Credit incentive with these companies would not have been accomplished if it were not for this incentive. It should be noted that we have used the Targeted Job Tax Credit with both large and small businesses.

Unemployment rates of deaf people run 50 to 100% higher than for the general population with variations geographically. Through follow-up to placements and review of client files, we have found a retention rate of 65% for deaf clients placed through the Targeted Job Tax Credit.

The goal of the Federal/State Vocational Rehabilitation Act supported by Congress is to assist disabled American citizens to take their place in competitive, unsubsidized employment. The Targeted Job Tax Credit has proven to be a positive force in opening more businesses for job placements with clients who are deaf or have other physical disabilities. Clients placed through our Program at the National Association of the Deaf have been for the most part former recipients of SSI, SSDI, or other forms of public assistance. The cost effectiveness of the Targeted Job Tax Credit in the case of the clients we have placed has been extremely high. The end beneficiary has been the taxpayer. The clients placed, rather than continuing as recipients of welfare or other forms of public assistance, have become taxpaying citizens.

For the above reasons, on behalf of the National Association of the Deaf, I urge your support of S. 52815 for a period of five years.

Senator Heinz. You all have presented a very broad sweep of extraordinarily helpful testimony, and I take it that each of you have found that the program, as you have experienced it and seen it work, is successful. Is that correct? Is there any disagreement?

[No response.]

Senator Heinz. The record will reflect that there is no disagreement with that.

But there are some people who have criticized the program by saying it's discriminatory. I suppose that anything that is targeted, in a sense, is going to be discriminatory; but it is saying that those people who make this charge say that the program is unfair because it gives people who are eligible for the targeted jobs tax credit an unfair advantage over those without, given all other things being equal. Would anyone like to react to that accusation?

Yes, Sister Judith?

Sister Judith Schloegel. Well, in regard to the ex-felon, I have two points:

First, it costs the taxpayer $16,000–40,000 to incarcerate a person for 1 year. The cost of an incentive to employers to bring ex-felons back into the labor market, rather than the recidivism problem, is certainly something to be looked at.

Second, most agree that the factors affecting crime are inadequate education and lack of opportunity. So, perhaps it is just a latent period in society's response to its citizens.

Senator Heinz. Mr. Brown.

Mr. Brown. Mr. Chairman, rather than saying that the tax credit as constituted gives an unfair advantage, I would argue that it eliminates an unfair disadvantage; it really puts them on an equal footing.

Senator Heinz. Any other comments on this question? Yes, Ms. Goodall?

Ms. Goodall. As I stated before, the individuals we work with—the moderately and severely retarded—have traditionally been considered unemployable. We are proving that that is not true anymore. They are able to hold down certain jobs and become productive citizens. In this way the tax credit is so important to us, because it is helping to change attitudes out in the business community.

You know, we use the tax credit as leverage to gain entry into these competitive jobs, and once they interact and see that the mentally retarded can hold jobs, it is going to change attitudes. And I think that is what is important.

Senator Heinz. Any other comments?

Mr. Ethridge. I would just like to second what has been said to my left here, in that it has finally provided an opportunity for, in our case, handicapped persons who for their full lifetime have been dependent upon public revenue from SSI, SSDI, and other forms of public assistance to care for themselves and become taxpayers.

The taxpayer, in these cases, is the winner, because the deaf persons and hearing-impaired persons who do obtain employment, rather than being tax users become taxpayers.

Senator Heinz. Any other comments?

[No response.]

Senator HEINZ. Let me ask this: We have had some excellent suggestions; for example, Mr. Marshall recommended that we should include the medical determination of handicapped as a method, and made other suggestions.

Should the targeted jobs tax credit be expanded, in your view, any of you, to include other groups, and if so, which ones?

Mr. Brown.

Mr. BROWN. I would only amplify my comments that I would like to see you expand it to include 16- and 17-year-old high school dropouts. Of course, some argument will be made that that might encourage youngsters to leave school, but I think we have found under CETA that youngsters didn't leave for the advantage of receiving a stipend under CETA, and it is unlikely that they would leave school for the advantage of making their employers eligible for a tax credit.

Senator HEINZ. Do any of you have any other suggestions?

[No response.]

Senator HEINZ. Now, one of the questions that we invariably must ask ourselves, and we have to ask it because of the present status of the Federal budget and the large deficits, is: Do the benefits of this program outweigh its costs? And many of you have said as much. But is there anybody here who would either like to amplify the points that they made, or is there anybody here who believes that there isn't proof that the benefits of this program outweigh the costs to the taxpayer?

[No response.]

Senator HEINZ. I gather it is fair to say you all feel that the contrary is true, that the benefits do outweigh the costs. Does anyone want to hazard to what extent—addition to their testimony already on the record—at this point? We will have other witnesses who will testify as to this, but if you have additional information I don't want to preclude it from being on the record.

Yes, Mr. Brown?

Mr. BROWN. I could simply provide one example:

A young man in Indianapolis, a Vietnam-era vet is why he qualified, was unemployed for a 2-year period and has now been employed for a 2-year period. Presuming even that his employer took the full tax credit for his first 2 years of employment, that still doesn't exceed what he was paid for those 2 years he was unemployed and what benefits he drew.

Senator HEINZ. There have been suggestions made so far, but I want to ask one other question: Are there any other ways that we could make the program more costeffective and efficient?

Let me give you one example: Back in 1981, the program was subject to some criticism because it was possible for an employer to hire someone and then get that person certified. Now, we corrected that in TEFRA, as I recollect, and obviously we have dealt with that problem.

There is a suggestion that is going to be made on how we can improve certain aspects, but I wonder if any members of this group have any specific suggestions along that line, that would make it more efficient or effective?

I know some of you have mentioned that one of the ways to make it more effective, assuming that it is efficient, is to give it continuity so that people will not only know about it but the State administering agencies will learn to use it better, that there will exist, because people like yourselves, employers, and others create a public education campaign, and that by virtue of an expansion, growth of the program, it will overcome some of the original stigma that seemed to be attached to it, which was, the more vouchers that are in circulation, the less exceptional it becomes to have one, and the less of a stigma it becomes, to the extent people react to it that way.

Are there any additional ideas?

Sister Judith.

Sister JUDITH SCHLOEGEL. Under the Jobs Training Partnership Act, which replaced CETA, there is currently on-the-job training reimbursement to an employer who trains. Up to $5 an hour, the employer receives 50-percent reimbursement per month. In many States there cannot be a subsequent hiring with the targeted jobs tax credit, and the suggestion to make it more efficient, I believe, would be that, if the person completes training with the employer, the employer then is given an added incentive of the tax credit upon hiring.

Senator HEINZ. Very well. Well, I want to thank all of you for excellent testimony. You have given us a very strong case, and I think you have answered the critics of why this program needs to be continued. It helps people who really do need help, who have suffered a great deal of difficulty in discrimination and separation from the job force, for a variety of reasons, and I thank you for helping us establish that record. You have all been excellent.

Thank you very much for being here.

Our next panel consists of Arnold Cantor, Phil Burnette, William Kolberg, and Jack Bloomer.

Gentlemen, would you please come forward to the table? I am going to ask Arnold Cantor, the assistant director of the Department of Economic Research of the AFL-CIO to be our first witness.

Please proceed when you are ready, Mr. Cantor.

STATEMENT OF ARNOLD CANTOR, ASSISTANT DIRECTOR, DEPARTMENT OF ECONOMIC RESEARCH, AFL-CIO, WASHINGTON, DC, ACCOMPANIED BY MARK ROBERTS

Mr. CANTOR. Thank you very much, Senator.

I am rather cold and lonely in this room in my position. I would like to introduce my colleague, Dr. Mark Roberts.

Senator HEINZ. If that would make you any less cold or lonely, by all means.

Mr. CANTOR. It has, and it will. Thank you, sir.

The AFL-CIO recommends that the Targeted Jobs Tax Credit be allowed to expire as scheduled on December 31, 1984. We have seen no evidence that the program has in fact generated any new jobs nor has been of particular benefit to the target groups; rather, evidence shows that employers have received windfall tax benefits for doing what they would have done anyway, and there is considerable potential for job substitution and job displacement.

The main indicator of failure and waste has been employers claiming credits retroactively for persons already on the payroll.

According to one study, 80 percent of certifications were retroactive.

Another problem is that the hiring of a targeted group member may mean that someone else may be unfairly denied a job because he or she is not subsidized, and there is much more intense competition for available jobs among those in the target groups.

Again, we have seen no evidence that employers actually expand their payrolls to accommodate additional workers from targeted groups.

In an analysis of our own on the most recent addition to the target list—Summer Jobs for Economically Disadvantaged Youth, aged 16 or 17 on the hiring date—showed that summer employment for the 16 and 17 year olds resulted from additional jobs in government and in private household service, not areas entitled to the credit. Unemployment rates for the group as a whole fell roughly in line with the overall movements in the labor force, and black youths, one of the prime target groups, did not share in the general improvement in unemployment rates that did begin.

Finally, Mr. Chairman, I think the most important issue here is that the evidence of the need for jobs and the need for solving the problems of the unemployed is clear but I do not think that evidence is in any way a justification for the use of a jobs tax credit.

We yield to no one in our commitment to full employment for all who are able and willing to work, and to the proper training of workers with special needs; but we are convinced the Targeted Jobs Tax Credit Program is the wrong route, and it should be promptly discontinued.

Thank you.

Senator HEINZ. Thank you, Mr. Cantor.

[Mr. Cantor's prepared statement follows:]

84-11

STATEMENT OF ARNOLD CANTOR, ASSISTANT DIRECTOR, DEPARTMENT OF ECONOMIC RESEARCH AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS, BEFORE SENATE COMMITTEE ON FINANCE, SUBCOMMITTEE ON ECONOMIC GROWTH, EMPLOYMENT AND REVENUE SHARING HEARINGS ON TARGETED JOBS TAX CREDITS AND S. 2185

MARCH 2, 1984

S. 2185, introduced as the "Job Opportunity Act of 1983," is a bill to extend the life of the Targeted Jobs Tax Credit program (TJTC) for another five years to December 31, 1989.

The AFL-CIO recommends that the TJTC be allowed to expire as scheduled on December 31, 1984. There is no evidence that the program has generated any new jobs or been of particular benefit to the target groups. Rather, evidence shows that employers received windfall tax benefits for doing what they would have done anyway, and there is considerable potential for job substitution and displacement. Moreover, as the "target" group expands, the competition for available jobs among those in the group heightens.

In its present form, the program basically dates from 1978 when tax credits for businesses hiring workers in seven "target" groups were written into law. In general, these groups included certain categories of assistance recipients, handicapped persons, ex-convicts, Vietnam veterans, and economically disadvantaged youth. The credit is equal to 50 percent of the first $6,000 of wages paid for the first year of employment and 25 percent in the second year.

In 1981, involuntarily terminated CETA employees were added; and in 1982, credits were established for businesses hiring economically disadvantaged youth ages 16 and 17 for summer jobs. The credit for the summer job group is 85 percent of up to $3,000 of wages paid in any 90-day period between May 1 and September 15.

Thus, the basic approach has been in place for about six years. The experience with it has been far from satisfactory, and the program has been subject to considerable abuse.

One of the main problems in the past has been that employers were able to claim credits for persons who were already on the payrolls or who were hired without regard to the availability of a tax credit. One study produced a finding that on average about 80 percent of certifications were retroactive -- employers hired first and sought tax certifications later for anyone on their payrolls who happened to fit into one of the targeted slots. Such a result is obviously of no benefit to the workers involved and simply produces a tax windfall for the employer at the expense of the general public.

The 1981 legislation sought to curb these effects by requiring that all eligible job applicants must have their job service vouchers in hand before they begin work, or as one critic put it "to hang a medallion around an applicant's neck that says 'I am one of seven targeted groups.' "[1]

The prospects of continued use of the program under the reformed provisions were thought to be considerably diminished by some experts. A New York City consulting firm that had charged fees for interviewing company employees to determine TJTC eligibility and get employees certified retroactively, called it "a delicious Catch 22." His firm had certified nearly 8,000 individuals for 500 clients since 1978. Under the new law, he predicted that a firm that "usually interviews today and hires tomorrow will either have to change its hiring practices in order to wait for the local job service agency to interview and certify eligible employees, or not to participate in the program at all."[2]

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[1] Frank Swain, Small Business Administration, as quoted in BNA Daily Labor Report, September 20, 1982.

[2] Roy Johnson, President of PCS Reports, as quoted in BNA Daily Executive Report, August 19, 1981.

We do not know whether the situation has actually worked out this way. The Labor Department has aggressively promoted the program, at least in some areas of the country. Last August, the Department's information service issued a release concerning the operation of the program in New Orleans in the summer of 1983 in behalf of the hotel industry. It recounted how the local Employment Security Service area manager was sending a team of staffers each week to work with the major hotel personnel offices. "Employee applications to the hotel and TJTC certifications are completed at one time in one place, saving time for both applicant and employer."[3]

This kind of operation is probably not available to all employers as it obviously involves additional money, staff, and effort on the part of the Employment Service. Many of these employees would have been hired in any event, if the hotels actually needed extra workers for their summer tourist trade.

Another problem is also involved: the hiring of a "targeted group" member can mean that someone else may be unfairly denied a job, because he or she is not subsidized. The same Labor Department release about TJTC in the New Orleans hotel industry quoted a Hyatt Regency staffer as stating that "given two qualified applicants, the Hyatt will hire a TJTC-eligible person first in those service-oriented positions open."

The possible impacts of discriminatory hiring of this kind -- where it takes place -- are highlighted by the surfacing of proposals in the Congress to add more "target" groups to the program, such as the aged, individuals living in areas of high unemployment, and persons who have exhausted unemployment insurance benefits. "Fairness" might require an ever-longer list.

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[3] U.S. Department of Labor, "A News Summary for Hispanos," Week of August 29, 1983.

Writing in 1982, Robert Tannenwald of the Federal Reserve Bank of Boston concluded that "to the extent they are effective, targeted subsidies enhance the employment of some groups only at the expense of others. An expansion of the role of targeted subsidies would encourage such displacement at a time when unemployment is at its highest rate since the Great Depression."[4]

The main impacts of TJTC thus involve either windfall tax benefits to employers for workers they would have hired anyway, or the hiring of subsidized individuals in preference to those without subsidies. There is also a possibility of actual displacement of current employees in favor of those who carry tax credits.

We have learned of a situation where an auto parts plant in Michigan, which had laid off a major portion of its work force, recently began recalling its workers as production resumed. Some of the less senior workers, however, had technically lost their recall rights under the union contract. When rehiring began, they were almost all replaced with individuals who carried tax credits under the TJTC program. As can well be imagined, this has caused a great deal of grief and outrage for the ex-workers who were thus shoved aside.

We have seen no evidence that employers expand their payrolls to accommodate additional workers from targeted groups. Rather, staffing levels are kept consistent with the basic requirements of the business. The one program that sought to condition tax credits on increased employment has been generally acknowledged as a failure (the "New Jobs" Tax Credit of 1977 and 1978).

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[4] "Are Wage and Training Subsidies Cost-Effective? -- Some Evidence from the New Jobs Tax Credit," New England Economic Review, September- October 1982.

An analysis of our own on this point (see pages 7, 8, and 9) involves the most recent addition to the "target" list -- summer jobs for economically disadvantaged youth ages 16 or 17 on the hiring date. The credit is a "supersubsidy" of 85 percent of up to $3,000 of wages paid between May 1 and September 15. It first went into effect for the summer of 1983.

By comparing labor force and employment figures for 16 and 17 year olds for the months of May-September 1983 with the same months of 1982, we came to the following conclusions:

1. Additional summer employment for 16 and 17 year olds between 1982 and 1983 came not from the private wage and salary sector, but from additional jobs in government and in private household service.

2. Unemployment rates for this group, as compared to a year earlier, began falling only in July, in line with the overall movement of rates for the labor force as a whole.

3. Black youth, ages 16 and 17, did not share in the general improvement in unemployment rates that began in July. Their rates worsened as compared with 1982.

We are very much troubled by the prospect of the continuance of a useless set of employer tax credits in behalf of targeted employee groups. The list can only grow longer with time as pressures develop, possibly involving even larger credits and more waste of the taxpayers' money. The present program costs, in terms of lost revenue to the Treasury, are already estimated at over $1 billion a year. In light of the enormous deficits now being incurred in the federal budget, TJTC is a program which can very appropriately be dropped.

As a final commentary on the problems of employment, I am submitting for the record a copy of the most recent statement of the AFL-CIO Executive Council on "The National Economy" issued on February 20. The AFL-CIO yields to no one in its commitment to full employment for all who are able and willing to work and to the proper training of workers with special needs. But we are convinced that the Targeted Jobs Tax Credit program is the wrong route. It should be promptly discontinued.

APPENDIX

EMPLOYMENT OF PERSONS AGES 16 AND 17, SUMMER 1982 AND 1983

TABLE 1 shows basic population and labor force figures for both the total population and for youth ages 16 and 17 for each month May-September 1983 with comparisons for the same months of 1982.

In the 16 and 17 year old group, the population was lower in each month of summer 1983 than it had been a year earlier. The population drop produced a smaller labor force in 1983 with generally lower levels of both employment and unemployment, only partly offset by increased labor force participation rates in June, July, and August. (In May and September participation rates were sharply lower than in 1982 and aggravated the labor force decline in those months.)

Unemployment rates for all youths ages 16 and 17 were higher in May and June of 1983 than in the same months a year earlier. Beginning with July, however, rates dropped below year-earlier levels. As shown in **TABLE 1**, this trend was the same as for the labor force as a whole.

The pattern for young blacks in the ages 16 and 17 group was distinctly different. Unemployment rates fell below 1982 rates only in the single month of June.

TABLE 2 shows employment changes by type of industry between summer 1982 and summer 1983 for 16 and 17 year old workers.

As noted for **TABLE 1**, employment levels generally dropped, reflecting population drops. However, **TABLE 2** shows that the declines for private wage and salary employment exceeded the overall decline for each month of the period, especially in June, July and August. The offsets to the employment drops in the private payroll sector came principally from increases in jobs in government service and in private household service.

(Separate data are not available for black youth.)

TABLE 1 CIVILIAN NONINSTITUTIONAL POPULATION AND LABOR FORCE, SUMMER 1982 AND 1983

(NUMBERS IN THOUSANDS, NOT SEASONALLY ADJUSTED)

	Population		Labor Force		Employed		Unemployed		Pct. of Pop. in Labor Force		Pct. of Labor Force Unemployed	
	1983	Change from 1982	1983	Change from 1982	1983	Change from 1982	1983	Change from 1982	1983	1982	1983	1982
Total Population												
May	173,953	+1,927	110,308	+ 394	99,543	- 414	10,765	+808	63.4%	63.9%	9.8%	9.1%
June	174,125	+1,935	113,383	+1,814	101,813	+1,130	11,570	+684	65.1	64.8	10.2	9.8
July	174,306	+1,942	113,980	+1,454	103,273	+1,783	10,707	-329	65.4	65.3	9.4	9.8
Aug.	174,440	+1,929	113,578	+1,691	103,167	+1,990	10,411	-299	65.1	64.9	9.2	9.6
Sept.	174,602	+1,912	112,197	+1,651	102,366	+2,515	7,830	-865	64.3	64.0	8.8	9.7
Age 16 and 17												
May	7,415	- 346	2,869	- 409	2,125	- 339	744	- 70	38.7%	42.2%	25.9%	24.8%
June	7,384	- 345	3,885	- 90	2,736	- 138	1,148	+ 48	52.6	51.4	29.6	27.7
July	7,355	- 342	4,240	- 171	3,270	- 110	970	- 61	57.6	57.3	22.9	23.3
Aug.	3,338	- 327	3,843	- 144	3,059	- 81	784	- 64	52.4	52.0	20.4	21.3
Sept.	7,322	- 313	2,828	- 241	2,170	- 105	657	-137	38.6	40.2	23.2	25.9
Age 16 and 17 Black Only												
May	1,098	- 25	238	- 3	111	- 2	127	- 1	21.8%	21.5%	53.1%	53.1%
June	1,094	- 25	377	+ 54	154	+ 41	223	+ 13	34.5	28.9	59.2	65.0
July	1,089	- 26	476	+ 7	268	+ 4	208	+ 3	43.7	42.1	43.7	43.7
Aug.	1,086	- 25	358	- 28	214	- 26	144	- 2	33.0	34.7	40.2	37.8
Sept.	1,082	- 25	201	- 52	83	- 44	188	- 8	18.6	22.9	58.7	49.8

SOURCE: U.S. DEPARTMENT OF LABOR, Employment and Earnings (monthly issues)

TABLE 2 EMPLOYMENT OF YOUTH AGES 16 AND 17 BY TYPE OF INDUSTRY, SUMMER 1982 AND 1983

(NUMBERS IN THOUSANDS, NOT SEASONALLY ADJUSTED)

				OTHER EMPLOYMENT				
		TOTAL	PRIVATE WAGE & SALARY	TOTAL	PRIVATE HOUSEHOLD	GOVT.	SELF-EMPLOYED	UNPAID FAMILY
1983	May	2,125	1,706	419	209	83	76	51
	June	2,736	2,102	634	298	186	83	67
	July	3,270	2,434	837	319	367	80	71
	Aug.	3,059	2,351	707	288	264	77	78
	Sept.	2,170	1,803	366	200	71	59	36
Change from 1982	May	-339	-342	+ 4	+19	-14	+13	-14
	June	-138	-245	+106	+50	+72	+16	-32
	July	-110	-176	+ 67	+15	+94	-10	-32
	Aug.	- 81	-156	+ 76	+39	+59	-13	- 9
	Sept.	-105	-122	+ 17	+ 9	+13	- 5	--

SOURCE: U.S. DEPARTMENT OF LABOR, Employment and Earnings (Monthly issues)

Statement by the AFL-CIO Executive Council

on

The National Economy

February 20, 1984
Bal Harbour, FL

The unrealistic budget and economic policies of the Reagan Administration threaten the soundness of our economy for years to come. Continuing high federal deficits are pushing up already high real interest rates and may soon tip the economy into yet another Reagan recession.

The deficit must be reduced by stronger economic growth, increased federal revenues and lower military expenditures.

Fundamental issues for working men and women -- jobs, fairness, and a future with opportunities for all -- are pushed aside by a President who places re-election above the urgent need to take action on these issues.

President Reagan's supply-side trickle-down experiment has failed. It is time to face reality by restoring adequate tax revenues, returning the corporate income tax as a major contributor of these revenues and closing loopholes that allow the wealthy to escape their fair share of taxes. The rapid build-up in military expenditures must be curbed and the destruction of domestic programs must be stopped.

Giant budget deficits raise interest rates, which in turn curtail public and private job creating investments and price homes out of the reach of most workers. High interest rates contribute to the overvaluation of the dollar, which prices U.S. goods out of foreign markets and encourages a flood of imports that undermines domestic employment and production.

A year after the bottom of the Reagan recession, 9 million Americans are still officially unemployed, 1.5 million "discouraged" workers are no longer even counted among the jobless, and almost 6 million workers who want full-time jobs are working only part-time. In January, there were one million more unemployed than when Reagan took office, and two million more than four years ago. The buying power of the average worker's paycheck is lower than in 1979. More Americans are living in poverty today than at any time since poverty statistics were first compiled in the mid-1960s.

Jobs, fairness, and opportunities for the future remain key issues for America's workers and for the nation in 1984.

Jobs

Healthy economic growth based on sound monetary, fiscal and industrial revitalization policies are necessary elements of full employment policies. To achieve progress toward full employment, rebuild the economy and help workers and their communities, we support the following measures now pending before Congress:

1. The industrial policy bill (H.R. 4360), which would set up a high-level Council on Industrial Competitiveness and a Bank for Industrial Competitiveness to make loans and loan guarantees for modernizing and revitalizing American industry.
2. The House-passed community service jobs bill (H.R. 1036 & S. 1812), which would provide public service jobs for workers who cannot find work in the private sector.
3. The public works bill (H.R. 2544), that would help reconstruct the nation's basic infrastructure, including water and sewer facilities, highways and port facilities, and other public works which stimulate private, job-creating investment and economic activity.
4. The plant closing bill (H.R. 2847), which would provide some protection for workers and local communities when industries shut down or move.
5. The House-passed domestic auto content bill (H.R. 1234 & S. 707), to assure a strong U.S. auto industry and additional trade legislation to provide relief for other impacted industries.

Fairness

The Reagan Administration has undermined many statutory protections through Administrative actions and has crippled enforcement of labor standards, civil rights, women's rights, occupational safety and health, environmental safeguards, consumer protections and long-standing anti-trust restraints on corporate power. To restore some element of fairness, major changes must be made. Only the election of a new President will restore proper administration of these basic statutory rights and safeguards. But Congress also has a responsibility for oversight of Administration actions and for enacting additional worker and consumer protections.

The tax giveaways to the wealthy and corporations enacted in 1981 must be reversed. A progressive income tax based on ability to pay must remain a fundamental principle of the tax system. New proposals to heap more of the burden on workers through such regressive devices as value-added taxes, consumption taxes, and flat-rate income taxes must be rejected. Congress should adjust the tax schedule to cap the last installment of the Reagan tax cut at $700, which would recapture $6.9 billion in 1985 revenues, and repeal the costly indexation provisions of the 1981 Act, which would recover another $6.3 billion. Corporations, whose share of the tax burden dropped from 20 percent in 1960 to 10 percent in 1983, must bear their fair share. Tax subsidies for the overseas operation of U.S. multinational corporations must be curbed through elimination of foreign tax credits and deferrals.

The only major revenue proposal of the Reagan Administration is to tax the health insurance of workers and their families. The AFL-CIO will strongly oppose this proposal.

Congress has before it a number of bills that we believe would enhance the fair treatment of the nation's citizens. Therefore we support:

1. The House-passed health care protection for the unemployed (H.R. 3521). This bill would create a modest program of health care for the unemployed and their families.
2. Cost-containment legislation to fight inflation in the health care industry while protecting wages, benefits, and other contractual rights of health care workers and including special protections for public hospitals. However, we will oppose further cutbacks in essential Medicare and Medicaid health care services.

3. Energy price regulation (H.R. 2154 and S. 996), the "Natural Gas Consumer Relief Act" to protect consumers from the monopoly power of natural gas producers, as well as the House-passed restrictions on the export of Alaska Oil (H.R. 3231) to assure that Alaskan oil is used for American consumers.

4. Legislation along the lines of H.R. 100, to end discrimination in pensions and insurance. While that discrimination rests first and foremost on women workers, it affects the entire family through diminished benefits or increased premiums.

5. Consumer protections on telephone rates and service with adequate protection for telephone workers and their pension rights.

6. Worker and union protections in bankruptcy cases to prevent corporations from trying to escape their obligations through phony bankruptcy proceedings. Consumer and worker protections must be provided in any bankruptcy reform legislation, such as H.R. 1147 and S. 333.

7. Legislation (H.R. 1743 and S. 1079) that would prohibit companies which violate the National Labor Relations Act from receiving federal contracts for up to three years.

The Future

In addition to jobs and fairness, America's working people want a secure future, a decent retirement, hope for education and opportunity for their children. To enhance the future of the nation's citizens, new, strong national leadership is required.

Congress now has before it legislation which would make a start toward these goals. We support:

1. Adequate funding for the Elementary and Secondary Education Act, for vocational education, for Adult Basic Education, for student loans and grants, and for other post-secondary and higher-education programs. We oppose President Reagan's schemes for educational vouchers and tuition tax credits as destructive of public education and oppose block grants as inefficient and ineffective methods of funding proven programs.

2. More funds for training and retraining of adult workers, particularly those affected by industrial dislocation.

3. Adequate protections for pension rights. The single-employer pension plan termination insurance program must be strengthened to (a) provide strong disincentives to termination of pensions plans by requiring solvent employers who terminate pension plans to be responsible for the full amount of accrued benefits of plan participants, and

> (b) curtail the ability of employers to dump unfunded pension liabilities on the Pension Benefit Guaranty Corporation. We will oppose attempts to modify the Multi-Employer Pension Plan Amendments of 1980.

The AFL-CIO is convinced that the nation can move toward full employment, restore fairness and build a better tomorrow for ourselves and our children. The program we have outlined will move the country toward these goals and at the same time reduce the federal deficit by stimulating the economy and raising needed revenues.

Congress should start to deal with these issues now, but only with the election of a new Administration can these principles be achieved.

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Attachments: Background Paper

Background Paper on The National Economy

The Administration proposes to increase defense outlays in 1985 to $272 billion, an increase of 15 percent.

This Council has called for reducing real defense spending increases to a range of 5 to 7 percent, with some members urging that the increase be held to the lower end of the range or below.

Savings from this lowered defense spending would be $7 to $12 billion in the first year, with substantially greater reductions in future years, assuming an inflation rate of 5 percent.

To pay for real increases in defense spending, we have supported a progressive surtax levied on corporate and individual income taxes, plus an additional tax on income currently sheltered. Such a surtax would raise $12 billion to $17 billion in the first year.

A number of the programs that the AFL-CIO calls for would provide for increased expenditures. But to the extent that people are put back to work under these programs, they would become taxpayers rather than recipients of unemployment compensation or in some cases welfare benefits. Each one-percent reduction of unemployment raises tax revenues by about $25 billion and reduces outlays by $5 billion.

Following are the budget estimates for the detailed programs spelled out in the AFL-CIO recommendations:

The Industrial Policy Act (H.R. 4360) would set up a new process for dealing with industrial economic issues through a new Council on Industrial Competitiveness, whose cost would be small. The Bank for Industrial Competitiveness would have a federal authorization for $8.5 billion in federal stock subscription made available over several years.

The Community Service Jobs Act (H.R. 1036 and S. 1812) calls for an authorization of $3.5 billion to employ people in community service work who cannot find jobs in the private sector .

The Public Works Act (H.R. 2544) would carry an authorization of $3.2 billion to help reconstruct the nation's basic infrastructure, including water and sewer facilities, highways and port facilities, and other public works which stimulate private, job-creating investment and economic activity.

The Plant Closing Act (H.R. 2847) would have little budget impact; it would require employers to provide advance notice and some basic protections for workers and local communities.

The domestic auto content bill (H.R. 1234 and S. 707) would have no measurable budget outlays but would assure continued extensive U.S.auto production.

The Health Care Protection Bill (H.R. 3521) calls for authorization of $1.8 billion a year for each of two years to provide health insurance coverage for the unemployed.

The health care cost containment legislation would save the federal government $1 billion. We oppose the President's call for cuts of $1.1 billion in Medicare and $1.1 billion in Medicaid.

The energy bills, women's pension and insurance protections, consumer and worker protections in telephone, and consumer and worker protections in bankruptcy have little budget impact, but provide substantial worker and consumer safeguards.

We are opposed to the President's call for cuts of $200 million in authorization for elementary, secondary and vocational education and for cuts of $900 million in higher education loans and grants.

We are opposed to the President's call for cuts of $600 million in employment and training programs.

There is a saving to the government in our proposals for improving the single-employer pension guarantee program.

In addition, the AFL-CIO has proposed a second rollback of the personal and corporate income tax reductions enacted in 1981, and the closing of some earlier corporate tax loopholes, which would add up to an estimated $49 billion in additional tax revenues in fiscal year 1985.

This is just a partial recapture of the $165 billion in revenue loss that occurs in 1985 as a result of the 1981 Tax Act. Congress made a start in 1982 to correct this revenue shortfall problem.

Additional Federal Revenues
From AFL-CIO Tax Proposals

	Fiscal Year 1985 in Billions
$700 Cap -- Third Year	$ 6.9
Repeal Indexing	6.2
Trim "Savings" Exclusions	2.7
Phase Down Capital Gains	3.9
Scale Back Estate and Gift Exclusion	3.7
Foreign Tax:	
DISC	1.4
Deferral	1.0
Foreign Tax Credit	7.1
Investment Tax Credit:	
Depreciation Basis Adjustment	1.3
Reduce 10% to 7%	7.1
Limit Graduate Rates to Small Corporations	2.0
Oil and Gas Depletion & Expensing of Drilling Costs	6.0
	$49.3

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Senator HEINZ. Mr. Burnette.

STATEMENT OF PHILLIP J. BURNETTE, PRESIDENT, COMMITTEE FOR EMPLOYMENT OPPORTUNITIES, WASHINGTON, DC

Mr. BURNETTE. Thank you, Senator Heinz.

I have some prepared comments for today, but in the interest of time I will set those aside.

Senator HEINZ. Without objection, your entire statement will be placed in the record.

Mr. BURNETTE. Thank you very much.

Your office is very aware of where we stand on TJTC. We have worked with your office before, on the last two extensions, and we are currently working on this one for you.

Let me take this opportunity to thank you for your determined leadership on this issue. You have our full support on this current campaign for extension, and we look forward to working with you again in 1989.

Senator HEINZ. Thank you, Mr. Burnette. I want to commend you for your support and your optimism, which I think is well placed.

[Mr. Burnette's prepared statement follows:]

COMMITTEE FOR EMPLOYMENT OPPORTUNITIES
1101 CONNECTICUT AVENUE, N.W. - FIFTH FLOOR
WASHINGTON, D. C. 20036

TESTIMONY OF THE
COMMITTEE FOR EMPLOYMENT OPPORTUNITIES

ON THE

TARGETED JOBS TAX CREDIT

BEFORE THE

SUBCOMMITTEE ON ECONOMIC GROWTH, EMPLOYMENT AND REVENUE SHARING
COMMITTEE ON FINANCE
UNITED STATES SENATE

MARCH 2, 1984

-::-

PRESENTED BY

PHILLIP J. BURNETTE
PRESIDENT

INTRODUCTION

On behalf of the membership of the Committee for Employment Opportunities (CEO), I wish to thank you, Senator Heinz, and the other members of the Subcommittee on Economic Growth, Employment and Revenue Sharing for holding these hearings on Targeted Jobs Tax Credit (TJTC).

CEO is a group of companies and associations whose goal is to improve and renew TJTC. It has no paid staff. Individuals have contributed their time and effort for renewal and in support of the latest initiative, S-2185, which calls for an additional 5 years for Targeted Jobs Tax Credit.

HISTORY

The Targeted Jobs Tax Credit program was implemented in 1978 to focus employment incentives on more narrowly targeted groups whose unemployment rates are traditionally above the national average, i.e., groups in need of special employment incentives in order to be considered for employment. In this way, the program differed from its predecessor, the New Jobs Tax Credit (NJTC) program, which was not targeted on specific groups and gave employers a credit for hiring above a "base line" regardless of the economic status of those employed. The targeted groups under the TJTC program are primarily the economically disadvantaged. They include youth (18-24), Vietnam-era veterans, and ex-convicts. In addition, general assistance and Supplemental Security Income (SSI) recipients, vocational rehabilitation referrals, and cooperative education students are included in the program.

Employers may claim a credit against their income tax liability up to $3,000.00 per individual in the first year of employment (50 percent of qualified wages up to $6,000.00) and $1,500.00 in the second year (25 percent of wages up to $6,000.00).

In 1981, the TJTC was extended for one year as a result of a Senate floor amendment offered by Senators Heinz, Dole, Domenici, Long, and 29 other Senators. The Senate vote was 95-3. In 1982, legislation was introduced (S.2455) by 39 Senators extending the TJTC for five years. Thereafter, as a part of TEFRA, the TJTC was extended through December 31, 1984. A number of changes were adopted in both 1981 and 1982 to make the credit work more equitably and to prevent unintended results.

The legislation currently being considered merely extends the credit, as is, for five more years. The legislation therefore is consistent with the 1981 Senate floor initiative and the 1982 Senate legislation, both of which had the clear support of the Senate. The TJTC has proven to be an effective incentive to hire from targeted groups and a five-year extension provides needed certainty to maximize the effectiveness of the program.

DISCUSSION

The CEO has been very active in recent months in an attempt, not only to encourage interest in the renewal of TJTC, but also seeking ways

to improve the delivery of the credit and seeking avenues through which the credit could be better utilized by both the unemployed and the employer. We have had many discussions with our membership searching out ideas and discussing problems and have discovered a series of issues which we feel need to be discussed.
These include:

1) Income proof for low income youth
2) Length of extension
3) Treatment of re-employed individuals
4) Increase in the lower living standard
5) Grace period for certification
6) Increase in the amount of wages taken into account
7) Additional targeted groups

1. Income proof for low income youth

A potential employee must meet three requirements to qualify for the TJTC:

A. Be a new employee who has not previously worked for the company at any time.
B. Be hired to work in a trade or business. Maids, chauffeurs, and other household employees do not qualify for the TJTC.
C. Be certified as a member of one of the target groups.

In general, eligibility determination and certification for all target groups is accomplished as follows:

A. The State Employment Security Agency (Job Service) is the designated certifying authority for all target groups except the cooperative education group.
B. The certification is accomplished through a standardized voucher system that is used to identify TJTC eligibles to both the employer and the State TJTC Unit for issuance of the certifications.
C. Job Service local offices determine eligibility and issue TJTC Vouchers to target group members.
D. A qualified individual presents the voucher to employers when applying for jobs or a prospective employee can be referred by a company to the Job Service office for certification.
E. When an eligible individual is hired, the employer takes the voucher, answers a few simple questions at the bottom, and prior to the individual's employement starting date, mails it per instructions on the form.
F. The TJTC Unit will check the voucher's authenticity and mail the employer a certification within three working days.

Like other programs, TJTC has depended on self-attesting of income. At the Job Service interview for vouchering, applicants report income for the previous six months to determine if they are indeed economically disadvantaged.

Where family income is involved, the interviewer asks what type of job is held by a family member, and how many of the previous six months were worked. This produces a very good picture of whether the income is over the limit.

Most important, the State Employment Services are required to audit 10% of the certifications issued in the previous quarter. Proof of income may be required in the audit.

As far as is publicly known, the auditing has been adequate for quality control, and has shown minimal error.

Last year CEO started receiving reports that the states were beginning to require proof of income for all applicants for TJTC vouchering. The proof would involve tax statements or payroll stubs for all family wage earners--excepting self-supporting youth.

Users of TJTC reacted with alarm to this projected change. Generally it was felt that:

- A large proportion of youth may be unwilling or unable to prove income.
- Most parents may not agree to state or prove their income.
- The willingness of new hires to go to the Job Service for vouchering--or the employers to send them--would decline sharply.
- Major users might drop out of the program rather than receive numerous complaints from new hires or parents.

The issue was whether TJTC would be effectively crippled, making an extension of any length of time unimportant.

CEO requested and obtained meetings with appropriate officials within the Department of Labor and we were requested by those officials to submit our comments in writing. We are currently waiting for a disposition of this problem and look forward to a positive result.

2. Length of extension

It is felt by our membership that at least a 5-year extension is necessary in order for the credit to work effectively and business to plan for implementation of the program~~ on a~~ longer term basis. The President's fiscal year 1985 Budget provides a one-year extension. This indicates the Treasury has recognized the credit's effectiveness as an easily understood, simple, private enterprise stimulus. However, the disadvantaged and handicapped within the targeted groups, the numerous community action and welfare organizations that promote the credit to potential employers, and the employers themselves need the certainty that a five-year extension would provide. Without a long-term extension, the credit cannot and will not reach maximum efficiency and will eventually die. No program can endure piecemeal, short-term extensions.

3. Treatment of re-employed individuals

As stated in #1 above of this discussion, the potential employee, in order to qualify, must be a new employee who has not previously worked for the company at any time. The purpose of the provision to limit rehires was to prevent exces~~sive~~ "churning" of certified individuals. In reality it has prevented many individuals from obtaining employment.

To illustrate the problem, below are several actual case studies from the files of companies. This is a particular problem in small town and/or rural areas where employment opportunities are limited.

- Robert was first hired by Company A in May, 1978. Late in 1978 Robert was arrested and convicted for attempted robbery. He spent two and one-half years in jail for his crime. Later, after being parolled, Robert applied for a job at Company A. If Company A had an incentive such as the TJTC Program provides, Company A may have given Robert a second chance. However, Robert was excluded from the TJTC Program because of being previously employed.

- John was first hired by Company B in 1968 in the Shipping Department. Recently, John applied again for employment at Company B. At that time, John was economically disadvantaged. John had been in the Army from 1975 to 1977. Since that time, he had separated from his wife and moved around quite a bit with no steady employment. He decided to settle back with his wife and family. At that time, John had bought a house and did not have enough money to make the payments. His wife worked but her department had not been working a full week for a long time.

John desperately needed a job to meet his financial obligations. He was declared ineligible for the TJTC Program because he had worked for Company B over 13 years ago.

- Sheila is 21 years old. She was interviewed by Company C on 3/29/82. She has a family of seven. She lives with her mother and two sisters and one sister has a child who lives with them and she has two children. The mother has been receiving food stamps and hasn't worked in six months. Sheila worked three summers at Company C while in high school. They both receive AFDC for the children. Due to Sheila being a rehire, she would not qualify for the TJTC Program.

CEO would like to suggest some reasonable time period that would prevent "churning" but after which those individuals who had never been certified previously would be eligible.

4. Increase in the lower living standard

The last time Bureau of Labor Standards revised the lower living standard income level was June, 1982, based on Autumn 1980 through Autumn 1981 data. The data was supposed to be revised in June, 1983, but this was not done. Therefore, the data is almost three (3) years out of date.

The economically disadvantaged criteria for TJTC individuals is set at 70% of the lower living standard. Either the data should be updated or the percentage increased to more closely adhere to economic reality.

5. Grace period for certification

An individual cannot be treated as a member of a targeted group unless, before the day on which the individual begins work for the employer, the employer has either received a certification that the individual is a member of a targeted group or has requested certification in writing.

Many targeted individuals apply for a job and are hired to begin work the same day. Many times, especially in smaller companies, it takes a few days for a job supervisor to complete the necessary paper work on these individuals. We would like to suggest, at the minimum, a three day grace period for the certification process to be completed.

6. Increase in the amount of wages taken into account

Another suggestion is to raise the wage base from $6,000.00 to $10,000.00. Many argue that without increasing the incentive, employers will simply not take a chance on the higher training costs evident in the targeted groups. It also may encourage the credit usage by higher paying industries.

7. Additional targeted groups

A variety of additional deserving groups have been mentioned for inclusion as a targeted group. These include (all economically disadvantaged):

A) Female Heads of Households
Households headed by women are the biggest single category of poor people in America.

In 1980, two cut of every three adults whose income fell below the poverty line were women.

Female-headed families need TJTC assistance more than any other group.

There are some key statistics for this group:

- Poverty rate for female-headed households is 45%.
- 60% are unemployed.
- Almost 40% have received welfare in the preceding year.
- More than half lack high school diplomas.
- One-fifth of the women have never been married.
- In 1970, abouth 30% of black families were headed by women; by 1980, 42% were. The percentage last year was 47% and climbing.
- By comparison, in 1982, 13% of the nation's families were headed by single parents, of which 10.2% were women and 2.6% were men.-
- Thus, four times as many women as men are heads of single parent families.
- Moreover, the rate of female-headed families is five times as large among blacks as among whites.

TJTC has suffered from largely excluding the adult disadvantaged population --except for relatively small members of Vietnam veterans, AFDC and welfare recipients, ex-offenders and handicapped.

Most disadvantaged adults don't qualify because they're 25 or older. Also, to be eligible under AFDC or general assistance, one must have received welfare payments in the past 60 days.

Female-headed families would also provide the largest government savings -- as subsidies are ended by employment.

CEO would strongly support the inclusion of this group.

B) Food Stamp Recipients

This is a second large adult-disadvantaged group needing TJTC assistance.

At present, food stamp recipients are not eligible for TJTC; most don't fit into the existing groups.

To receive food stamps, one must apply to the local welfare department and meet HHS income guidelines. An income test is well established.

This category would serve low income adults who truly need employment assistance.

C) Long Term Unemployed

The definition includes those who have exhausted all available benefits (federal and state), or who have been unemployed 26 weeks or more.

Many people who would qualify in groups A. or B. above would not have been unemployed for a full 26 weeks, or exhausted benefits. So this is a separate group from the other two, though with some overlap.

D) Other Groups

Additional groups frequently mentioned include older workers (over 55, economically disadvantaged) and unemployment compensation recipients, displaced homemakers and displaced workers. The latter three have been very difficult to define.

CONCLUSION

The Targeted Jobs Tax Credit offers a way out of poverty and joblessness for persons who are economically disadvantaged and who lack the basic skills or experience to compete effectively in the job market. All too often, such persons are statistically discriminated against, particularly because of the high cost of labor coupled with lack of experience. The Targeted Jobs Tax Credit removes that veil of discrimination by providing incentives to employers to take a chance they might not normally take in their hiring practices. It enhances job and career prospects for low income people and provides an incentive for employers to act according to self-interest while accomplishing federal policy objectives.

At a time when federal support for social programs is being curtailed drastically, the Targeted Jobs Tax Credit is filling the void because it strikes an appropriate balance between commitments from federal government and private industry. Businesses' investments of time, money and energy to make the program work are being matched by the government's efforts to reduce the cost of training.

TJTC is the most cost-effective program within the federal government for creating employment. Revenue foregone as a result of credits claimed are offset to a large extent by the reduction in federal, state and local transfer payments such as welfare, unemployment compensation, etc. The Targeted Jobs Tax Credit also transforms the unemployed into taxpaying citizens. Dollar for dollar, it is the best vehicle available to reduce unemployment and the most efficient manner to utilize tax expenditures for the creation of jobs.

The Committee for Employment Opportunities commits itself to the continued existence of TJTC. We appreciate this opportunity to testify in behalf of our member organizations and again extend our thanks to Chairman Heinz and the Subcommittee.

SUMMARY

The Committee for Employment Opportunities is a group of companies dedicated to the continuation of the Targeted Jobs Tax Credit program. This credit has proven effective in the employment and retention of the targeted groups.

The Committee would like to see the credit extended for at least 5 years. Also discussed is the removal of burdensome, upfront income verification, easing of the restrictions on rehires, an increase in the lower living income standard, a grace period for certifications, an increase in the amount of wages taken into account and consideration of additional targeted groups.

Senator HEINZ. Mr. Kolberg.

STATEMENT OF WILLIAM H. KOLBERG, PRESIDENT, NATIONAL ALLIANCE OF BUSINESS, WASHINGTON, DC

Mr. KOLBERG. Senator Heinz, thank you for allowing us the opportunity to appear before you.

The National Alliance of Business has supported this program strongly since 1978. We appreciate your strong leadership over the last several years in support of the targeted jobs tax credit.

As you pointed out in your opening statement, to have to renew it three times in the last 6 years certainly does not create the stability around this program that I think it deserves.

We strongly support your bill for a 5-year extension. We think employers will see such an extension as a vote of confidence in it and will come forward and use the program much more effectively.

As I am sure you are aware, the program has really begun to take off in this last year. There were 431,000 certifications in the last year, 33,000 of them were under the new tax credit for economically disadvantaged summer youth. We see indications this year that we may have a billion-dollar program, much larger than it has been in the past.

So the cup is half full. The program seems to be working well.

I want to point out several problems we see. We brought them to your attention last year, and we still see them as severe problems. We think they should be worked on.

First, we want to pay tribute to Secretary Donald Regan. At our annual national conference this past fall he promised us that he would get final regulations out within 45 days. He met his own deadline and those regulations are out. The regulations affecting the last 2-year authorization, however, are not final. So we recommend again, in the interest of stability that will enable employers to use this program with a sense of confidence, that the Treasury Department promulgate final regulations quickly. But Secretary Regan has certainly made a strong start in that direction.

Second, I know you are aware of the work we have done—together with the chamber of commence and theNational association of Manufacturers—to publicize the tax credit. But I am sure you are also aware that, with 10 million private employers, the word really hasn't gotten out. We think that is still a significant problem. We would be critical to some degree of the executive branch. We have had a sense up until very recently that this program was a well-kept secret and that the executive branch really wasn't trying to acquaint employers with it. We still think that providing information about the program is a problem.

Thirdly, you heard from Mr. Brown—and I share his view—that the certification questions are still unresolved. There are 50 separate State activities, and 50 separate ways to administer certifications. We think the certification process needs to be standardized.

Finally, we think the program is rather poorly administered. There are $20 million available this year for what might be a billion-dollar program. I am sure you will hear from other witnesses that States are running out of money to administer this program. The executive branch has not taken it seriously enough to provide the funds available to do an adequate, first-class, job of timely certification. We think that needs to be taken care of.

In line with these problems, Mr. Chairman, we would suggest that it is time now, before we move any further with a 5-year extension of the program, for the Finance Committee to take the lead in setting up a study group with the administration. Perhaps the committee should consider directing the Secretary of Labor to set up such a group. We, and I know all the witnesses here today, would be happy to cooperate with a group established to look hard at the evidence of whether this program works or not. We do not believe that has been fully documented. Second, the group should look at the other questions which we mentioned earlies in our testimony, which we think are still there. As we move to a permanent program—which a 5-year program certainly is—we need to take care of the administrative problems before we go any further.

Thank you, Mr. Chairman.

Senator HEINZ. Thank you very much, Bill.

[Statement of Mr. Kolberg follows:]

TESTIMONY OF WILLIAM H. KOLBERG, OF THE NATIONAL ALLIANCE OF BUSINESS, BEFORE THE SUBCOMMITTEE ON ECONOMIC GROWTH, EMPLOYMENT AND REVENUE SHARING

Mr. Chairman, thank you for the opportunity to appear before this subcommittee to express the views of the National Alliance of Business on the Targeted Jobs Tax Credit program.

My name is William H. Kolberg. I am President of the National Alliance of Business. With me today is Pierce A. Quinlan, our Executive Vice President for Operations.

The National Alliance of Business is an independent, business-led, non-profit organization with over fifteen years of experience helping poor, unemployed youth and adults obtain productive jobs in business and industry. Each administration since NAB's founding has turned to the Alliance to continue its lead in developing and maintaining the business community commitment to resolving the unemployment problems of the economically disadvantaged. Our focus on breaking the bonds of unemployment by building working partnerships between government, business, labor, education and community groups to create training and job opportunities for the jobless remains unchanged since 1968.

We are here today to urge support for S. 2185, the five-year simple extension of the program. Since the program was first enacted, its use has been constrained by uncertainty about its continued existence. Extending TJTC for five years provides the necessary stability that would enable employers to make longer range plans to increase their use of the tax credit as the economic recovery continues and more jobs become available. Already we see signs that some major corporations are incorporating TJTC in their long range hiring plans.

The Alliance has supported the Targeted Jobs Tax Credit since it was first enacted in 1978. We believe that the general concept is sensible and that it is an effective mechanism for convincing employers to hire those people who traditionally are hard to employ because of lack of a work history or other physical or social handicap.

It is impressive that more than 431 thousand individuals were certified in 1983 as eligible for jobs using the targeted jobs tax credit, twice the number of certifications reported in 1982, and initial reports indicate a major increase in certifications for the first quarter of 1984 over the same period last year.

In addition, this past summer was the first year of an 85 percent tax credit for hiring economically disadvantaged youth. That experience alone provided an important indication that tax incentives for employers can work. Nationwide, more than 33 thousand youth were certified for jobs -- many of whom would not have been hired if the credit had not been available.

An advantage of targeted jobs credit, often overlooked, is that some of the people who are hired as a result of the tax incentives to employers no longer have to rely on public assistance programs. Faced with an ever increasing cost of maintaining public assistance programs, a decrease in the number of recipients does help control or even reduce the federal government's financial burden. The tax credit results in a loss of tax revenue, but only to the extent that unemployed people go to work. The revenue loss is ultimately and almost immediately offset by a gain in tax revenue at all levels through income and other taxes paid by these newly employed individuals and from their spending of disposable income not previously available.

The Alliance's support for the extension does not mean that we think the program should continue exactly as is. We would not recommend another five years of the program without addressing three major problems that have plagued the program from the beginning.

First, the federal government and local public agencies have not always had sufficient priority or financing to make TJTC work effectively. It was only last fall that the Internal Revenue Service issued regulations for use of the program. At our annual conference in October we raised the issue personally with Treasury Secretary Regan who then promised to have them out within 45 days. He delivered on that promise November 23 when the IRS published final regulations for the period prior to 1981, and issued proposed rules for the program changes made since then. Employers can now use the tax credit for the first time with clear ground rules without fear of arbitrary administrative interpretations. However, it took us five years to move the IRS to action, and a complete set of final rules is not yet in place.

Second, is the limited effort by public agencies to acquaint employers with the program. Only a fraction of the nation's employers who could use this program have heard about it, and little has been done to inform employers about what the rules are and how it works so that they can become comfortable with it. We have done our best to try to fill that vacuum by working with the Chamber of Commerce of the United States, the National Association of Manufacturers, and other key business organizations with membership networks, to disseminate the information about the program. Mr. Chairman, I would like to provide for the Subcommittee copies of publications that we developed for that purpose.

Third, and perhaps the most serious problem, is the administrative confusion on the certification side of the program. In only a few instances that we know of, have state agencies stepped in to streamline the certification process, so that employers can receive rapid assurance that their new employee is eligible and the person can begin work. If the public agencies of government are unable or unwilling to tackle this problem agressively enough to ease the administrative burden, then this Subcommittee ought to consider alternative methods of certification, including consideration for authorizing self-certification by employers, as has always been done with other employer credits in the Internal Revenue Code.

The Alliance has felt that there has not been enough attention to these problems to make the program really effective. If Congress does reauthorize the program for five years, we ought to recognize the problems that have kept it from working as effectively as intended and remedy them in the reauthorization.

In spite of limited publicity, the program has doubled in size between 1982 and 1983. This expansion is causing other problems. For example, many states throughout the country have either run out, or are about to run out of funds with which to administer the employment service certifications of eligible individuals for the remainder of this fiscal year. The Administration has budgeted $1 billion in fiscal year 1985 for the total cost of the program which is 3 times the amount budgeted in 1982. Yet over the last three years, the same $20 million level for administration and certification has been budgeted, which shows that the program is clearly outgrowing its administrative allowance. The question, therefore, arises as to whether or not basic state grant funds for the employment service should be used to continue certifications in the program through the end of the year, which we understand is being done, or should other funding be provided?

Another question deals with the use of TJTC as an incentive combined with other employment and training programs. For example, under the Job Training Partnership Act, an eligible trainee can be placed with an employer for subsidized on-the-job training and at the same time be certified as eligible for the targeted jobs credit. After completion of the training program, the employer can then claim the tax credit for the employee retained on the job. Many local private industry councils consider coordination with the targeted jobs credit as critical for involving employers who can provide training and placement opportunities in stable jobs for eligible individuals who are often the "hardest-to-employ".

Important procedural questions have remained unclear in these instances:

- would the two-year availability of the credit begin when the employee enters training or upon completion of the training program? and

- would the wages paid during the subsidized training program affect the amount of qualified first-year wages that would be claimed under the tax credit?

And finally, the impact of the program has not been adequately measured. Is there a net increase or loss in federal taxes; reduction in welfare payments; and what are the types of jobs filled and the number of jobs created as a result of the program?

We propose for your consideration that a special task force be formed, in conjunction with the extension, to investigate the answers to these and other important questions. Perhaps the Finance Committee could direct the Secretary of Labor to review these questions with representatives of business, labor and government. The group should also be given a specific timetable within which to work and report its findings back to Congress within six months. The Alliance would be happy to assist the Finance Committee or the Secretary in resolving these questions for the benefit of the program.

The Targeted Jobs Tax Credit has gained great momentum since it was first enacted in 1978. Many businesses have used and continue to use it effectively. With proper management, it will continue to be a significant incentive for employers to hire individuals who need the jobs most and will start those individuals on the road to economic independence. And so, the National Alliance of Business supports your efforts for enactment of a five year reauthorization.

That concludes my testimony, Mr. Chairman. I would be happy to answer any questions.

Senator HEINZ. Jack Bloomer.

STATEMENT OF JACK BLOOMER, VICE PRESIDENT OF OPERATIONS, AMERISERV CORP., FORT LAUDERDALE, FL, ACCOMPANIED BY PAUL E. SUPLIZIO, WASHINGTON REPRESENTATIVE, TARGETED JOBS TAX CREDIT COALITION, WASHINGTON, DC

Mr. BLOOMER. Thank you, Mr. Chairman.

Mr. Chairman, I appreciate the opportunity to testify before you today, to present the views of the Targeted Jobs Tax Credit Coalition, which represents 80 firms including Ameriserv Corp.

My name is Jack Bloomer, and I'm chief operations officer of Ameriserv Corp., which was formerly Charter Business Services. We have worked with approximately 1,500 corporate clients in the investigation and implementation of State and Federal tax programs. In this capacity, Ameriserv has assisted approximately 500 client companies in implementing the targeted jobs tax credit program. We have supported the program in the past, and we continue to support its extension.

Our research and development office has recently completed a study that involved a survey of 66 major clients, as well as a telephone survey of job service agencies in 10 States. This study has been sent to you with recommendations that we feel would assist in the successful continuation and improvement of the targeted jobs tax credit program.

Among other things, this survey revealed that a full 42 percent of qualified targeted jobs tax credit employees simply would not have been hired if this program did not exist. And, very significantly, our clients inform us that when business slows, qualified targeted jobs tax credit employees are retained.

Figures released by the U.S. Department of Labor indicate that fiscal year 1983 certifications for qualified targeted jobs tax credit candidates nearly doubled in every targeted group compared to 1982. It is obvious that private business supports the program.

While the administration's position supporting a 1-year extension is better than no extension, in order to ensure ongoing maximum support of business a 5-year extension is much more appropriate.

I think you would agree that it is very difficult for business to think in terms of a full commitment to support a 1-year program.

The program is not without its problems, however, and some of these have been commented on before, but I would like to mention them again:

There is a lack of uniform vouchering and certification methods across the country. This makes it very difficult for multi-State corporations to administer the program.

There is also a lack of resources to provide adequate personnel in job service offices. The increased number of vouchers cannot be processed in a timely manner by many State offices.

Many offices do not even have current regulations.

There is also an opportunity, and that has to do with telephone interviews, which in the State of Florida has been used very successfully. The indications are that a State office can operate and support the program much more efficiently in this way.

And of course there is the potential misuse, that has been mentioned by some, of confidential information. This is an important issue, and we have addressed this in the survey which was forwarded to you, and which we recommend you look at.

All of the above points can be resolved to make the targeted jobs tax credit program even more effective.

In conclusion, I would suggest that the targeted jobs tax credit program has been the single most successful jobs creation Federal program ever implemented, and we would like to see it continued not just for 1 year but for a minimum of 5.

Thank you.

Senator HEINZ. Thank you very much, Mr. Bloomer. That last statement of yours was a very strong statement, that it is the "single most successful jobs creation program"?

Mr. BLOOMER. We think it is.

[Mr. Bloomer's testimony follows:]

TESTIMONY PRESENTED BY JACK BLOOMER, VICE PRESIDENT AND CHIEF OF OPERATIONS OF AMERISERV CORP.

Mr. Chairman and Members of the Committee:

I appreciate the opportunity to testify before you today to present the views of the Targeted Jobs Tax Credit Coalition which represents 80 firms, including Ameriserv Corporation.

My name is Jack Bloomer. I am Vice President and Chief Operations Officer of Ameriserv, which was formerly Charter Business Services. We have worked with approximately 1,500 corporate clients in the investigation and implementation of state and federal tax programs. Ameriserv has assisted approximately 500 clients in implementing the Targeted Jobs Tax Credit program. We have supported the program in the past and we continue to support its extension.

Our Research and Development office has recently completed a study that involved a survey of 66 major clients, as well as a telephone survey of Job Service Agencies in 10 states. This study has been sent to you with recommendations that we feel would assist in the successful continuation and improvement of the Targeted Jobs Tax Credit program.

This survey revealed that 42% of qualified Targeted Jobs Tax Credit employees would not have been hired if Targeted Jobs Tax Credits did not exist. This program has made a difference. Targeted Jobs Tax Credits have contributed to the decline of unemployed workers, and have provided opportunities for those previously receiving welfare. And, very significantly, our clients tell us that when business slows, qualified Targeted Jobs Tax Credit employees are retained.

Figures released from the U.S. Department of Labor indicate that Fiscal Year 1983 certifications for Targeted Jobs Tax Credit qualified candidates have nearly doubled in almost every targeted group compared to Fiscal Year 1982. It is obvious that private business has supported this program. We believe the Administration's position supporting a one year extension is good. However, in order to ensure continued support of business, a five year extension is much more appropriate. It is very difficult for business to think in terms of a full commitment to support a one year program.

The Targeted Jobs Tax Credit program is not without problems. However, the very fact that it is a mature program means that the problems have been identified and those problems that have not already been addressed can be resolved. This program can be even more successful than is indicated by the 431,000 targeted workers hired in fiscal year 1983.

Some of the problems that have been identified include:

- Lack of uniform vouchering and certification methods. This makes it very difficult for multi state corporations to administer the program.

- Lack of resources to provide adequate personnel in Job Service Offices. The increased number of vouchers cannot be processed in a timely manner by many state offices.

- Offices do not have current regulations. Many have been found to be using outdated copies of regulations.

- Limited use of telephone interviews. It is our experience that by using telephone interviewing, state offices can operate more efficiently.

- Potential misuse of confidential information. This is an important issue and we have included a recommendation in the report you have received to address this valid concern.

All of the above points can be resolved to make the Targered Jobs Tax Credit program even more effective.

In conclusion, I would suggest that the Targeted Jobs Tax Credit program has been the single most successful jobs creation federal program ever implemented. We want to see it continued not for just one year, but for a minimum of five. Let Targeted Jobs Tax Credits continue to make a difference.

This completes my testimony. I would be happy to answer any questions from you or members of the Committee.

Senator HEINZ. The AFL-CIO has a different position.

Mr. BLOOMER. Obviously.

Senator HEINZ. They have said three things: They have said it doesn't create any jobs; second, they have said that employers are receiving the credit after the person is already working there; and, third, they have said that this discriminates against workers who don't have these credits.

Now, let me ask Mr. Cantor: You mentioned that you found many employers receiving the credit who had employees already on the job. Now, we did change the law in 1981 as part of ERTA. We disallowed that practice. It had taken place before. Were you aware of that, prior to your making this statement?

Mr. CANTOR. Yes, sir. My full statement cites an example of the change and the fact that it has just been another kind of punching on this balloon, where by patching up one problem you have created another problem.

Senator HEINZ. Well, I just want to get the facts straight.

Mr. CANTOR. It is in my prepared statement.

Senator HEINZ. Just so I understand what you are alleging, are you alleging that that practice takes place now?

Mr. CANTOR. I don't know, sir.

Mr. ROBERTS. The testimony indicates a situation in which a hotel was hiring, and they had people coming in. They got the local employment service to be there to certify those people who were eligible for the TJTC.

Now, it is clear that the employer, faced with a choice of hiring someone who carries a TJTC certification or someone who does not is going to prefer to take someone who carries the TJTC. In other words, no net jobs have been added; the employer is simply getting the windfall benefit from the people who are hired carrying the TJTC.

Senator HEINZ. Well, that really brings us to the second point, which is—as I understand your testimony—that the people who are receiving this tax credit don't or should not get some special help by way of entering into the workforce.

Mr. CANTOR. Oh, no, sir.

Senator HEINZ. Let me ask you this: Would you agree that the targeted jobs tax credit has been successful in helping disadvantaged people get jobs?

Mr. CANTOR. Senator, our position on this is that we believe the tax credits, particularly of this fashion, are wasteful and inefficient ways to meet goals.

We have long been supporters of effective training programs; we have been supporters of direct subsidies to employers who can demonstrate training programs. These programs are back-door, they are wage subsidies, they carry no strings on them and potentially could set off one particular target group against another.

As we saw here today, Senator, which also disturbed me, there was kind of an attempt to rank: 16 to 17 year olds come equipped with an 85-percent survey; the good Senator Sasser suggested that we have a 75-percent subsidy for long-term unemployed; other people are to have a 50-percent subsidy. I don't think that's the way our labor market works, Senator.

Senator HEINZ. Maybe not, but we had testimony from the vocational rehabilitation people that their people have in effect a 50- to 75-percent unemployment rate, which is fairly high even by AFL-CIO standards.

Now, I was wondering if you could answer the question I asked you. So that I understand your testimony, you are objecting to the program on two grounds: One, that you believe it is an inefficient subsidy. You have stated that. But, second, your other point—and this is the point I want to bring out—is that because it works for disadvantaged people, it is unfair.

Mr. CANTOR. No.

Senator HEINZ. Well, could you clarify what you mean by that point?

Mr. CANTOR. There are alternative ways of using roughly $1 billion a year to meet the needs of these people.

Again, as you know, Senator, we yield to no one in our support for programs that——

Senator HEINZ. But what do you recommend we do as an alternative?

Mr. CANTOR. As an alternative? First of all, we are all wrestling right now with a very, very serious deficit problem and interest rate problems. There is a combing of the Internal Revenue Code to get every nickel possible out of it.

Senator HEINZ. No; I didn't make question clear. Sir, you are answering a perfectly reasonable question, but it is just not the one I meant to ask, which is: How would you propose to help the disadvantaged, that this legislation apparently helped, to get jobs if we don't have this legislation?

Mr. CANTOR. By funding and using that money to fund programs that can effectively do that.

Senator HEINZ. And what would those be?

Mr. CANTOR. Mark, would you want to answer that?

Mr. ROBERTS. Senator, we are very strong both on affirmative action programs to help disadvantaged people, and we are very strongly in support of a whole array of employment and training programs. We have the National Human Resources Development Institute, an arm of the AFL-CIO, which is concerned with helping in job placement, in reaching out, in working with people like exoffenders, young people, and a range of the special targeted groups.

We are involved in programs to help alcoholics, to help disabled people. In other words, we have participated, we have supported, over the years we have had a consistent record of very strong support for programs to do things directly rather than indirectly.

Senator HEINZ. There is absolutely no disagreement about that. I think the AFL-CIO has an exemplary record in trying to help people and trying to help the least advantaged people.

But just so that we sharpen the argument, one of the things you said we could do to help people here is, rather than have this program, do it through affirmative action, which, depending on whether you are Jesse Jackson, Walter Mondale, or Ronald Reagan, you either set targets or you set quotas. Well, let's not debate the distinction between targets and quotas; but it seems to me that if you have an affirmative action program that sets a target or a quota, that that is just as subject to the accusation of reverse discrimination as you have made against the targeted jobs tax credit program.

How would you respond?

Mr. ROBERTS. Well, I would respond to that, Senator, by saying that over a good many years the AFL-CIO, our HRDI, has worked with employers and with unions to promote an understanding and acceptance and outreach on this kind of affirmative action. We have worked with employers, and I think a lot of very well intentioned employers have cooperated in this kind of affirmative action and outreach.

Now, I think it is important to call on the employers and the union people to work together on this, and I think it is much more logical—it certainly seems logical to us—to do this directly rather than doing it with a subsidy of a tax credit.

Senator HEINZ. One question for Phil Burnette and William Kolberg, and Jack Bloomer:

Gentlemen, is it your view that this program indeed has been successful in meeting one of its major intended goals—namely, providing unemployment opportunities for the disadvantaged?

Mr. Burnette, yes or no?

Mr. BURNETTE. Yes.

Senator HEINZ. And substantially yes? Is that a strong "yes" or a weak "yes"?

Mr. BURNETTE. A strong "yes", Senator. Absolutely.

Mr. KOLBERG. Yes. Could I expand on my answer for just a moment, to get in on this colloquoy you just had, please?

Senator HEINZ. All right.

Mr. KOLBERG. It seems to me this program, and the Job Training Partnership Act, have the same goals in mind.

What the Congress has tried to do through Federal financial incentives, is to change hiring behavior of employers. And the way economists would say that should be, is by moving those with a severe disadvantage in the labor market farther up on the hiring queue, by helping an employer take a chance on someone, either through an on-the-job training subsidy or a direct subsidy as in this program. We think they have essentially the same goals in mind; but they offer different ways of reaching the same goal. We believe this is one of a number of programs that ought to be in a whole panoply of things the Government uses to try to change the behavior of employers, by encouraging employers to hire those who are left out or disadvantaged. And we believe, in that context, both programs have been successful.

Senator **Heinz**. Mr. Kolberg, thank you very much.

Gentlemen, you have all been excellent witnesses. Senator Dole may have some questions. I have about a 60-second meeting, and I will be back in a minute.

Senator Dole, thank you very much.

Senator **Dole**. I don't have any specific questions.

We have been in this committee room now for about the last 2 weeks, 20-some hours, trying to put together a revenue package of about $50 billion. Now, if you extend the jobs credit for 5 years, you are going to take about a billion and a half of that, and some of those who want to extend programs aren't willing to help us find the money to pay for them.

I just say flat out, we are not going to extend a program unless we find a way to pay for it. It was not in the House bill that was passed yesterday. We are still about $10 billion short in our revenue package, before we consider any add-ons at all.

So, if you are trying to promote this as an add-on to the pending package, you had better help find us a way to pay for it.

We left this room yesterday thinking we had raised $3.5 billion, closing huge, gaping loopholes in the way we tax the real estate industry. By last night at 7:00, they had put enough pressure on members to change the vote. So, therein lies the problem. We are not going to report revenue losers out of this committee, when we are faced with $200 billion deficits—not as long as I am the chairman.

I may not have the votes to stop it; but, unless we have a willingness on this committee to pay for things we do, we're not going to do it.

Now, it is easy to give a billion away; I'd be for it, too, if I were in the business. But where are we going to get the billion? And that is a real problem. I don't know if you have any answers, but it is really going to be difficult to get a 1-year extension of this program, let alone 5 years.

I don't have any questions; I am just telling you we have a problem, and if you can help us with the problem, we might help you with the program.

Mr. **Kolberg**. Mr. Chairman, I would like to respond, if I may. It seems to me that that is a perfectly reasonable challenge on your part. Our response would be this: That we believe this program is a much more effective way of taking care of the problem of the structurally unemployed than public service employment programs, or even a much larger subsidized-job training program.

We have reduced Federal expenditures in this area from essentially $12 to 14 billion 3 or 4 years ago to about $3 billion under Job Training Partership Act, and this program, which is now probably $500 to $600 million.

So, I guess the argument I would make to you—which, I understand, you get made on all programs—is that this is a more effective way of reaching the structurally unemployed and getting them into private sector jobs than what we were doing before. We ought to give it a fair chance instead of cutting it off, just as it really begins to work, and employers begin to understand it and use it.

Senator DOLE. I didn't suggest that. I was just suggesting that unless we can pay for it we are not going to add it on. And right now we are $10 billion short in our package. As I said, we lost $3.5 billion yesterday on real estate, because that industry put enough pressure on members to change enough votes after the committee had recessed. So we don't have $44 billion, we have $41 billion, and we need $54 billion before we even consider add-ons. I don't know where we are going to get it, but we are not going to meet any more in this committee until we work it out.

Did you have a comment?

Mr. GIERY. Senator, we have been here before with revenue-raising measures. [Laughter.]

Senator DOLE. I don't like your idea. [Laughter.]

Senator HEINZ. Mr. Chairman, Mr. Cantor will go at some length on revenue-raising measures.

Senator DOLE. I have read the Mondale program. So do the people in New Hampshire read the Mondale program. [Laughter.]

Mr. CANTOR. Senator, we agree on this one. I think we are on the same side—for different reasons, perhaps—on this one.

Senator DOLE. Obviously everyone on the panel is concerned about deficits and interest rates; it's the last thing you need in any of your businesses.

I am not trying to be the skunk at the lawn party here, but I assume everyone here can hardly wait to spend more money for targeted jobs credits; but we don't have any. Maybe we can find some. We are having a meeting right next door to try to figure out some new loopholes to address. This may be one itself.

Senator HEINZ. Gentlemen, thank you very much. We appreciate your excellent testimony.

[Pause.]

Senator HEINZ. Our next panel consists of John Bishop, Dave Robison, and Edward Lorenz.

Mr. Bishop, please proceed.

STATEMENT OF JOHN H. BISHOP, PH.D., ECONOMIST, WORTHINGTON, OH

Dr. BISHOP. I want to thank Senator Heinz and Senator Dole for being here for my testimony.

I am Dr. John Bishop, director of the research division of the National Center for Research and Vocational Education at Ohio State University.

I have been doing research on the targeted jobs tax credit ever since it was created, but I testify not reporting on any specific Government-funded study but as an individual, as a citizen.

I would like to try to respond to Senator Dole's challenge to find ways to raise revenue or cut tax expenditures, so I will try to make some recommendations for how to increase the cost effectiveness of the program, possibly reduce its cost, and also mention some alternative revenue-raising ideas in this area.

Senator HEINZ. Dr. Bishop, before you go any further, you have done a very considerable study of this program. I took the opportunity to read your testimony and your study, and I will have it included at this point in the record.

[The information follows:]

THE TARGETED JOBS TAX CREDIT: WHAT HAS BEEN LEARNED

by

John Bishop

A Statement before the
Subcommittee on Economic Growth,
Employment and Revenue Sharing,
Committee on Finance

Hearings on the Targeted Jobs Tax Credit

March 2, 1984

The National Center for Research in Vocational Education
The Ohio State University
1960 Kenny Road
Columbus, Ohio 43210
(614) 486-3655

I appreciate this opportunity to contribute to your committees' deliberations regarding revision and reauthorization of the Targeted Jobs Tax Credit. I am Dr. John Bishop, director of the Research Division of the National Center for Research in Vocational Educaation located at the Ohio State University. I would like to thank the Upjohn Institute for its current support of my work in this area and the Department of Labor, the National Institutes of Education and the Congressional Budget Office for their past support.[1] I testify however as an individual, not as a government contractor.

THE TARGETED JOBS TAX CREDIT

Beginning in 1979 employers outside the personal service sector have been able to obtain a tax credit of 50 percent of the first $6,000 of wages per employee for the first year of employment and 25 percent of such wages for the second year of employment for the hiring of certain categories of workers. These included high school students in cooperative education programs, economically disadvantaged youth (eighteen through twenty-four), veterans and exconvicts, Supplementary Security Income and general assistance recipients, and the handicapped.

The Problem of Low Participation

The program started slow; but by fiscal 1981 it had grown to a point where 400,000 workers were being certified per year. Eligibility was tightened in 1981 and that combined with the recession reduced the number of certifications to 202,261 in fiscal 1982. With the end of the recession the total number of certifications rebounded to 431,182 in fiscal 1983.

TJTC has had greater success at obtaining employer participation than previous targeted employment subsidies like the WIN tax credit, NAB-JOBS and CETA-OJT. This was due to the following three features of TJTC:

1. It is an entitlement. Reluctance on the part of local agencies to administer it cannot prevent a persistent employer from obtaining certification of employees that are eligible. In fact, ETA's 1979 Study of Early Implementation of TJTC found "the rather limited vouchering and certification activity that had taken place by then was largely in response to employer and applicant inquiries rather than active promotion by their staff."

2. At least one target group—the Co-op Ed students--was defined by a characteristic that does not carry stigma. For this group, student and employer certification were made into a one-step process and responsibility was centralized in the hands of a person--the high school official responsible for Co-op Ed--who was being judged by school supervisors on the basis of the number of jobs found for the target group. As a result, 45 percent of all jobs certified for TJTC's have been for Co-op Ed students. The 1981 reauthorization of TJTC limited the eligibility of Co-op Ed students to those from disadvantaged families so this comment does not apply to the current TJTC program.

3. Participation in TJTC requires less paperwork than CETA-OJT or the JOBS and early WIN programs did and requires fewer contacts between government agencies and the employer.

Nevertheless, the TJTC is currently helping less than 10 percent of the pool of young people eligible for the program.[2] There are three primary causes of TJTC's low participation rate:

1. For a long time most employers were not aware or were only vaguely aware of the program. A spring 1980 survey of employers found that only 17 percent of all employers representing establishments responsible for 33 percent of all employment reported being "familiar" with TJTC (EOPP Employer Survey). Firms that reported being familiar with the program often knew very little about it. The program is now much better known. A 1982 resurvey of these same employers found that 80 percent had "heard" of TJTC and 50 percent had spoken to a representative of government or a trade/business organization about the program.
2. There is a stigma attached to being a member of most of the TJTC's target groups. Employers perceive the program to be subsidizing people who do not make good workers. This reduces the likelihood that employers will ask the employment service to refer TJTC-eligible workers to their firm. Furthermore, many applicants feel that telling prospective employers of their eligibility for TJTC may hurt their chances of getting the job.
3. The complicated rules of eligibility means that most employers are unable to identify who is eligible on their own and that government certification of employee eligibility is necessary. This has three disadvantages: (a) it often forces the firm out of its traditional recruitment channels; (b) employers fear that it will introduce red tape into the hiring process or bring about unwelcome government interference (the costs of identifying and certifying who is eligible are thus major deterrents to participation); (c) the program's success depends upon cooperation between private business men and government bureaucrats. (Most employers are very wary of government and the attitude of government employees in some parts of the country reinforces their distrust.)

The 1982 NCRVE employer survey asked employers who had heard of TJTC whether they planned to ask the Employment Service for referrals of TJTC eligibles when they needed to hire unskilled workers in the future. Only 27 percent said yes. The other 73 percent were asked "why not" and their answers are reported in Table 1. The reasons cited for not planning to ask for referrals generally related to either not needing or wanting people of the type who would be eligible or not wanting to deal with the agency, the employment service, that was proposed by the question as the referral source. Thirteen percent were not expecting to hire anyone, 7.6 percent did not need the types of workers who might be eligible and 17.5 percent thought eligible workers would not be skilled or reliable enough. Dissatisfaction with the employment service was very common--8.5 percent expressed dissatisfaction with pervious ES

TABLE 1

REASONS FOR NOT PLANNING TO ASK FOR REFERRALS OF TAX CREDIT
ELIGIBLES WHEN AN UNSKILLED WORKER IS NEEDED

		Percent of Responses
Not Hiring That Type of Worker/Not Eligible		22.0
Don't expect to be hiring	13.0	
Will not be needing types of workers who might be eligible	7.6	
Would not benefit because we have no tax liability	.2	
We are not eligible	1.2	
Eligibles/Referrals are Thought to be Poor Workers		26.0
Eligible Workers not skilled enough	14.0	
Eligible Workers not reliable enough	3.5	
Dissatisfied with employment service referrals	8.5	
Don't Use the Employment Service		23.2
Criticism of TJTC Program		15.3
Too much paperwork	10.7	
Might result in government interference	3.3	
Tax benefit not big enough	1.3	
Applicants Should Be Judged by Qualifications and Not by Tax Credit Availability		6.5
Other/Didn't Think of It		7.0
		100.0

Unweighted tabulation of answers to "Can you tell us why you do not plan to ask for referrals." that was asked of the 73 percent of respondents who answered "no" or "don't know" when asked "In the future, do you plan to ask for referrals of tax-credit eligible employees when you need to hire unskilled workers?"

referrals and another 23 percent said I don't use the employment service without citing a reason. The responses suggest that having to obtain referrals and certifications from the employment service may be an important barrier to participation. The next most common reason for not planning to participate was paperwork 10.7 percent. Only 3.3 percent mentioned the possibility of government interference or IRS audit as a negative and only 1.3 percent claimed the tax benefit was to small.

Since many of the negative references to the employment service were probably a consequence of problems with previous referrals, it should be clear that the primary barrier to universal participation is the perception that eligible referrals will be less productive and less stable workers. Since low productivity was the primary criterion for selecting the groups that would be eligible for TJTC, this should not be a surprise. If the program is well targeted, it is almost inevitable that employers will perceive it this way.[3]

The stigma attached to being a member of one of the targeted groups cannot explain why employers do not request a certification for employees they know to be eligible. The 1982 NCRVE survey found that certifications were not requested for 15 percent of the known TJTC eligibles that were hired. The 118 firms that reported not applying for a tax credit for one or more of their eligible hires were asked why. Their answers are reported in Table 2. Forty-six of the firms cited legitimate structural reasons for not applying--employee left too quickly, firm not eligible, deadline passed etc. Seventeen reported that not knowing how was responsible for not applying and twenty-five reported the paperwork was too great. Only 3 complained the tax benefit was too small, only 8 said they don't want to get involved with government and only one mentioned a fear that applying might result in government interference. Thus among firms that hire eligibles the primary barriers to participation seen to be paperwork and ignorance. Of the two, ignorance is the most important for there are large numbers of firms that hire eligibles but do not realize it.

Minimizing paperwork was an important consideration in the original design of TJTC. Most of the complexity and paperwork that remains is an inevitable consequence of the highly targeted nature of the program. The complicated nature of the eligibility rules and the resulting necessity of employment service involvement in the referral and certification of eligibles do not, however, match up well with the recruitment processes that predominate in the relevant labor markets. Each month the typical employer in this labor market is hiring one employee for every ten already on board (Cohen and Schwartz 1979). The probability that a new hire will still be with the firm six months later is less than 50 percent. As a result, employers try to keep the cost of searching for new employees to a minimum. Studies of how people have obtained their last job find that 35 percent of all jobs were found by applying directly to the firm without suggestions or referrals and that another 26 percent were obtained by applying directly to the firm at the suggestion of a friend or relative (Rosenfeld 1975). Most firms prefer to hire people who are recommended by current employees or who have shown their desire for the job by personally coming to the establishment and applying. Seventy percent of the employers with vacancies do not list the opening job with the employment service (Bishop, Barron and Hollenbeck 1983). As a result, even though 34 percent of all workers had checked with the employment service during their last period of job search, only 5.1 percent had gotten their jobs through an employment service referral. Employers prefer informal recruitment channels because (a) such channels are faster, (b) employers do not become inundated with job applicants who must be interviewed, (c) prescreening is possible so the number of applicants who are turned down is minimized, (d) they can avoid dealing with government and (e) they believe they find better job candidates from informal sources.

This preference acts to limit the market penetration of any program for finding jobs for the disadvantaged that depends upon a labor market intermediary--the employment service, WIN office or a JTPA subcontractor such as the Urban League. High participation rates will be achieved only when unusually dedicated and competent people are running the labor market intermediary. With only ordinary leadership, such a program is bound to be only partially successful--helping some of the people who approach the agency for help but failing to reach most of the eligible population.

The targeted employment subsidies that preceded TJTC all necessitated agency referrals of eligible job applicants. With TJTC there are two alternate ways of bringing subsidy, employer, and job seeker together. Job seekers may inform employers of their eligibility. This does not now occur to a significant degree because most eligible workers are unaware of TJTC's existence

TABLE 2

WHY EMPLOYERS WHO HIRED ELIGIBLE WORKERS
DID NOT OBTAIN CERTIFICATION

		Number of Responses
Administrative/Structural Reasons		46
Deadline for applying past	5	
Employee left before being certified	12	
Employee did not stay for required length of time to be certified	9	
Not eligible for other reasons	11	
General/other administrative and structural	9	
Lack of Knowledge/Don't Know How		17
Benefits Did Not Outweigh Costs		32
Paperwork too great	25	
Tax benefit too small	3	
General	4	
Don't Want to Get Involved with Government		8
Might Result in Interference		1
Worker Ability		2
Other		12
		118

Answers to the question "Why didn't you apply for the tax credit for these eligible employees?"

and because most employment service offices do not routinely inform the eligibles that do come to it for assistance that they are eligible. The other barrier to this mechanism becoming important is the reluctance of many job applicants to advertise their TJTC eligibility for fear they will be stigmatized. This reluctance seems to be justified. Two experiments, one in Dayton, Ohio and the other in Racine, Wisconsin in which TJTC-eligible welfare recipients were trained to inform employers of their eligibility for a tax credit found that such training caused a statistically significant reduction in placement rates (Burtless and Cheston 1981; Moran, et al, 1982).

The second alternative mechanism assigns the initiative to the one who most directly benefits from the tax credit, the employer. This scenario envisions employers' screening their job applications for eligible individuals and then sending them down to the employment service for vouchering and certification before or after they are hired. Presumably, anticipating that A may be eligible for subsidy and B is not will increase the probability that A is offered the job. The use of family income and participation in welfare programs as targeting criteria, however, makes it difficult for employers to know who is eligible and thus prevents many employers from taking the tax credit into account when hiring. Sending job applicants over to the employment service prior to hiring does not seem to have become popular for it delays the hiring process, risks losing the worker altogether, and is thought to be unethical by many employers. Identification of eligibles by the employer (or his agent) seems to have become the primary mechanism by which employers identify and certify TJTC eligible workers.

The agencies that administer TJTC at the local level have an extremely critical role to play even when agency referrals are not the primary way employers recruit and identify eligible job candidates. They must market the program. Studies of employer participation in TJTC have found it to be quite responsive to personal contact by job developers and other local administrators of the program.[4] Not only do these contacts inform employers of the programs existence but they also greatly increase the probability that knowledgeable firm will participate. Firms that first learned of WIN from a government representative were nearly twice as likely to participate in WIN and two thirds more likely to participate in TJTC (Bishop and Montgomery, 1983). Firms that have participated once are very likely to participate again.

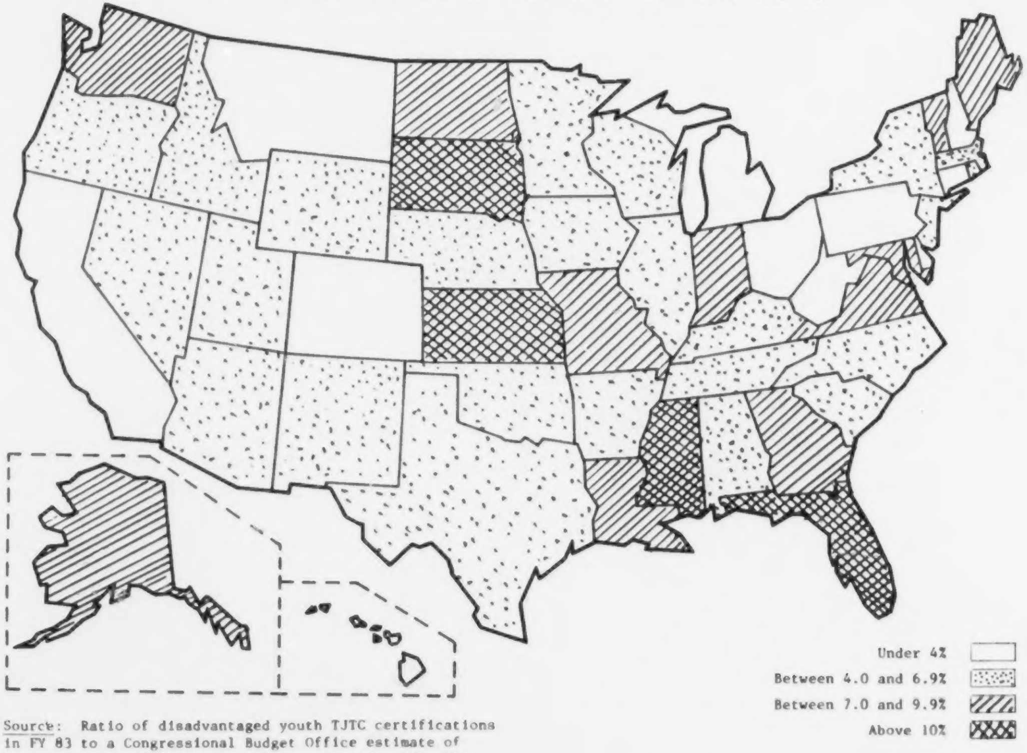
The importance of local outreach and promotion is further supported by the dramatic differences between states in the proportion of their disadvantaged youth that are served by the program. Vermont, for instance, vouchers 35 percent of their eligible youth and certifies 9.2 percent while New Hampshire vouchers only 10 percent and certifies 3.8 percent. Kansas vouchers 29 percent and certifies 11.6 percent of eligibles while Colorado vouchers only 2.9 percent and certifies only 2.5 percent. Maryland vouchers 21 percent and certifies 8.6 percent while Deleware vouchers only 7.6 percent and certifies 3.7 percent. The rates of vouchering and certification of eligible youth for all fifty states are presented in figure 1 and 2. The willingness of firms to participate in these programs does not vary appreciably from state to state; what does vary are the policies and commitment of the local administrators of the program. Examples of administrative foul ups and unwilling or incompetent administrators sabotaging the TJTC program are not difficult to find. When the federal contribution to administrative costs ran out in the state of Wisconsin, certifications dropped to almost zero for the final three months of the year. One Oregon employer found his local employment service ignorant of TJTC and uncooperative, as well. He claimed they were not even set up to certify the eligible workers that he found and hired; he had to go down to the office to teach the staff there how to certify someone. If all states were to adopt the exemplary policies and marketing philosophy of states such as Vermont, Maryland, Kansas, South Dakota, Florida and Mississippi the utilization and impact of TJTC could be doubled.

The Problem of Cost Effectiveness

The purpose of the TJTC program is to induce firms to increase their hiring and training of disadvantaged workers. The program can be considered cost effective only if a reasonable proportion of TJTC certifications represent an increase in hiring of targeted workers and this hiring does not result in other similarly disadvantaged workers not being able to find a job.

The fact that most employers choose not to participate in a program cannot be interpreted as strong evidence that the program is not cost effective. The low rates of employer participation in these tax credit programs suggest that non-pecuniary costs of participation are high for many firms. Some of these costs--learning enough about the program to use it, making arrangements

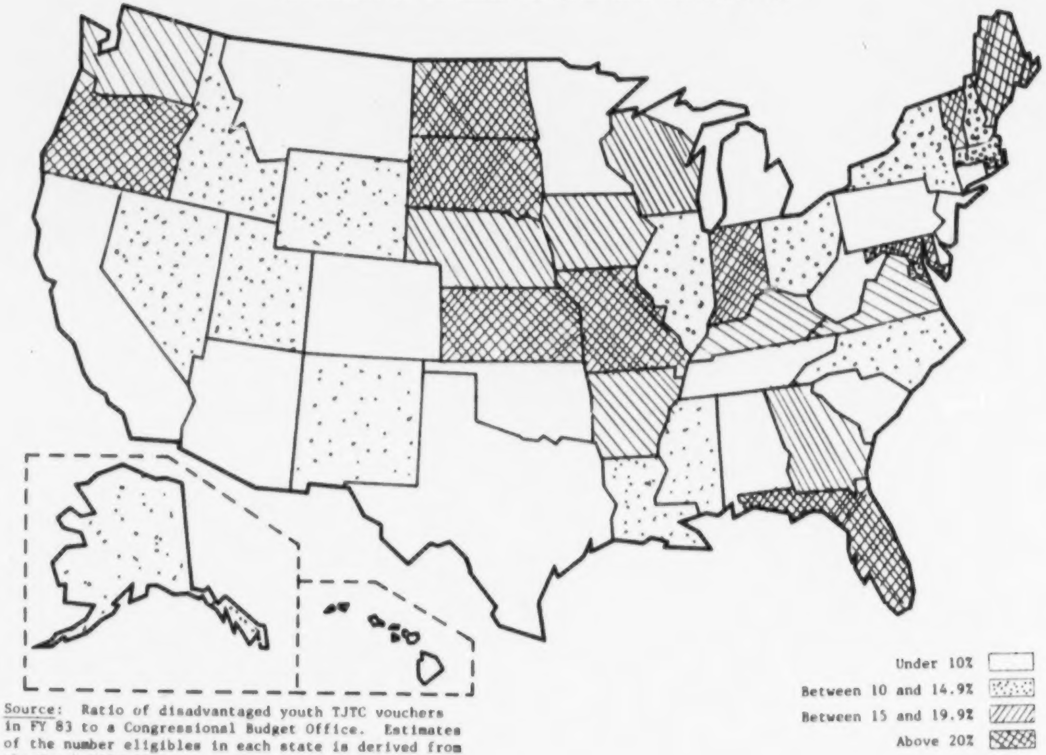
PERCENT OF DISADVANTAGED YOUTH OBTAINING A TJTC CERTIFIED JOB


Under 4%
Between 4.0 and 6.9%
Between 7.0 and 9.9%
Above 10%

Source: Ratio of disadvantaged youth TJTC certifications in FY 83 to a Congressional Budget Office estimate of the number of eligibles in each state based on the CPS.

Figure 1

VOUCHERING OF ELIGIBLE DISADVANTAGED YOUTH--FY 83


Under 10%
Between 10 and 14.9%
Between 15 and 19.9%
Above 20%

Source: Ratio of disadvantaged youth TJTC vouchers in FY 83 to a Congressional Budget Office. Estimates of the number eligibles in each state is derived from the March 1983 CPS.

Figure 2

for the referral of eligible workers, establishing a system to identify which job applicants are eligible and the risk of being subjected to greater scrutiny by EEOC or the IRS--are fixed (i.e., do not rise with the number of eligibles hired). These costs discourage participation, but for those who do participate they should have no systematic effect on the impact of the subsidy on employment. Other non-pecuniary costs depend upon the number of workers hired through the program. The variable costs are the costs of searching for, identifying, and certifying eligible workers and the risk of hiring workers that are less productive than the typical unsubsidized job applicant. These costs lower the net benefit of hiring extra subsidized workers, and therefore, reduce the impact of the subsidy on participating firms. Our study of participation in these programs suggests that for TJTC and WIN fixed costs are a more important deterrant to a firm's participation in these programs than the variable costs (Bishop and Montgomery 1983, pp. 29-45). Many of the firms that choose to participate seem to participate very heavily. Even though less than 1 percent of all workers are subsidized, the typical subsidized worker is working in an establishment at which 14.6 percent of the firm's employees are subsidized. This suggests that in some of the participating firms the marginal costs of hiring subsidized workers are and remain low as the employer expands his employment of subsidized workers. This means that the fact that participation rates of firms are low cannot be taken as evidence that a program has zero or only small effects on those firms that choose to participate. In fact, a reasonable argument can be made that the response (extra employment) per dollar of expenditure will be bigger in a small program than a large program. When there are important fixed costs to particiaption, firms with high elasticities of demand for the susidized class of workers and low marginal costs of certifying extra workers are more likely to participate than firms with low elasticities of demand and high marginal costs of participation. As a result, one might expect that the first firms to volunteer to participate will be more responsive than the firms that are talked into participating at a later date.

There are, however, other reasons for being concerned about cost effectiveness. Five types of evidence are available:

1. Data on retroactivativity--proportion of certifications made after hiring date.

2. Experiments in which eligible job seekers are taught to announce their eligibility to prospective employers.
3. Survey responses by employers about how they were influenced.
4. Econometric estimates of employer response.
5. Data on the relative productivity of TJTC eligibles.

Retroactivity

For the first two and a half years of the TJTC program employers could apply for certification of an eligible employee long after the hiring date. The consequence was that many tax credits were awarded for employees whose eligibility was not learned of until after the date of hiring. During this period approximately 63 percent of the non Co-op Ed certifications of eligibility were being obtained after the individual had been hired. This has been intepreted as implying that the tax credit was not influencing many of the hiring decisions that resulted in receipt of a tax credit, and therefore, was producing "windfalls" for employers. Because of this concern the Economic Recovery Tax Act of 1981 outlawed retroactive certifications. Since fall 1981 all new certifications have had to be requested by the employer prior to the eligible individual's employment starting date. This change has probably significantly improved the cost effectiveness of the TJTC program.

Experiments where Job Seekers Announce their Eligibility

There have been two experiments where welfare recipients who were seeking employment were taught to announce their eligibility for a TJTC to employers when they applied for a job. In both experiments the group that received this training had a lower placement rate than other eligible welfare recipients who did not receive this training. In the Dayton experiment random assignment was used to select the group to be trained. The reduction in the placement rate was statistically significant. The results of the Racine/Eau Clair, Wisconsin quasi experiment are particularly interesting. The study used a design in which WIN clients served after training in using TJTC as a marketing tool was initiated were compared to those who served prior to the change. Holding other characteristics constant, the WIN clients who were trained to tell employers about their TJTC eligibility were not only less likely to obtain any job, they were half as likely to obtain a TJTC certified job.

A follow up of some of the WIN clients in the experimental and control groups in Racine found that it was the WIN clients who followed instructions and brought up their eligibility when contacting employers that were least likely to find a job. Of the thirty-two reporting that they used TJTC as a marketing tool, only two (6 percent) found TJTC certified jobs. Of the 26 reporting they did not initiate discussion of their TJTC eligibility, 22 percent found TJTC certified jobs. These results suggest that if you are a welfare recipient, that announcing you are a TJTC eligible tells most prospective employers something they did not previously know, that is stymatizing and that reduces your chances of being hired (Burtless and Cheston 1981, Moran et al 1982).

There seems to be strong evidence that signaling ones welfare recipiency has a powerful stigmatizing effect for most employers. One would not expect, however, that being a youth from a low income family would be equally stigmatizing and this presumption receives support from two studies. Nearly 900 employers were asked to review a sample of completed job applications and assign employability ratings. In both studies TJTC eligibility had a modest positive effect on the rating given and in the one with the larger sample the effect was statistically significant (Hollenbeck, 1984a; Hollenbeck and Smith, 1984).

Survey Responses

There have been three surveys in which employers were asked what impact TJTC had upon their hiring. In the spring of 1980 the EOPP employer survey asked the 313 employers reporting that they hired employees subsidized by TJTC, WIN, or CETA-OJT, "Did participation in the program we just talked about influence this establishment to expand total employment by more than might otherwise have been done?" Twenty-five percent of the firms said yes. They were then asked "How many additional employees were hired that wouldn't have been hired otherwise?" The total induced increase in hiring reported by the firms was 383. The total number of workers subsidized in all 313 firms was 1896 so the ratio of reported job creation to certifications was 20 percent (Bishop and Montgomery 1984).

A GAO survey of TJTC users in January 1980 asked "To what extent did the tax credit influence your decision to hire workers from targeted groups, i.e., Would you have hired them anyway?" Twenty-six percent said their use of TJTC would increase employment level and 41 percent said they substituted some target hires for similar non-target workers (O'Neill 1982).

In January 1984, 100 employers who had hired one TJTC eligible in a 21 month period ending two years previously were asked "Was there ever an instance in your recollection when a tax-credit eligible individual was given hiring preference because of the tax credit over another individual who was approximately as well qualified or more highly qualified?" About 21 percent of the respondents said yes. When those firms who reported changing who they hired part of the time are given the appropriate weight, the firms reported changing who they hired about 17 percent of the time. They were also asked "Can you think of any instance when your firm decided to make an opening in the firm to take advantage of a tax credit?" About 13 percent said yes. When those who reported doing it part of the time are given an appropriate weight the proportion reporting being induced to increase employment was 7 percent. It should be noted, however, that a survey of employers who hired exactly one TJTC eligible between January, 1980 and September, 1981, it is not representative of the bulk of TJTC usage. TJTC certifications are highly concentrated. In 1983, for instance, Pizza Hut hired 6,366 TJTC eligible employees in company owned stores. Probably 50 to 100 firms are responsible for more than half of all TJTC certifications. The firms that recruit TJTC eligibles and give preference to TJTC eligibles when they select new employees will become the biggest users of the program. Data on these big users is essential if aggregate employer response to the TJTC is to be measured. As a result surveys like the one just reported significantly understate the magnitude of the aggregate employer response to TJTC.

Econometric Estimates of Impact on Total Employment

To date there has been only one attempt at an econometric evaluation of the impact of TJTC on the employment levels of participating firms. The time period examined by this study was the very beginning of the program July 1979 through December 1979. Separate models predicting employment growth were estimated for different size establishments. TJTC had no impact on establishments with fewer than twenty employees but a large and significant impact on establishments with twenty-one to one hundred employees and an important, through not statistically significant impact on establishments with more than a hundred employees. Since most employment is in large establishments, the average (using employment shares as weights) increase in employment per subsidized worker was .3 (Bishop and Montgomery 1984).

Relative Productivity of TJTC Eligibles

The purpose of targeted employment subsidy programs is to induce firms to (1) hire disadvantaged workers for jobs that would otherwise have been filled by better qualified workers and (2) provide the extra training that these workers require to eventually reach the productivity standard of the other workers in the firm. If the program is achieving this purpose we would expect that when one compares subsidized and unsubsidized workers holding the same job (or controlling on the characteristics of the job and the firm) that subsidized workers would have poorer credentials, would be less productive, and would require greater than average amounts of training.

Evidence on this issue is available from the 1980 EOPP employer survey, the 1982 NCRVE/Gallup employer survey, and the 1984 NCRVE survey. In the EOPP survey employers were asked to describe a randomly selected recent hire for an unskilled or semiskilled job. If they had also recently hired a subsidized worker they were asked to give a similar description of that individual and the job that the subsidized individual filled. Multivariate models predicting the credentials and productivity of these new hires found that even when characteristics of the job and the firm were controlled subsidized new hires had less previous experience, less education, were less productive both initially and later at the time of the interview, and were more likely to quit or be dismissed. CETA-OJT workers received considerable extra training. TJTC and WIN workers did not.

Similar models run in the 1982 survey found that when the new hire was known to be eligible for subsidy when hired that productivity was 4 to 12 percent lower during the first two weeks, 2 to 6 percent lower during the next ten weeks, and 4 to 5 percent lower at the time of the interview. Depending on the model one prefers training was 0 to 13 percent higher.

In the 1984 NCRVE survey of TJTC users employers were asked "Compared to other employees with the same amount of tenure in the same or very similar job was/were the tax credit workers more or less productive?" The answers obtained were "the same"--55 percent, "more"--10 percent, and "less"--35 percent. When all these answers are averaged together the TJTC workers were about 7 percent less productive than non-TJTC workers. Probably more significant were

were the reported differences in turnover. The quit rate was reported to be 41 percent for TJTC workers and 21 percent for others. The dismissal rate was reported to be 13 percent for TJTC workers compared to 8 percent for others. (Hollenbeck, 1984b.) We conclude from this evidence that TJTC is having the desired effect of inducing some firms to lower their hiring standards. The effect is very small, however. If the TJTC workers hired are turning out to be only 7 percent less productive than other workers, the 50 percent subsidy rate would seem to be too high.

Recommendations for Changes in the Structure of TJTC

The evidence on the cost effectiveness of TJTC is mixed. Much can be done in the area of administration to improve participation rates but, most of the incremental changes in the legislated structure of TJTC that would raise participation rates would decrease cost effectiveness. The cost effectiveness of TJTC can be defined as the tax subsidy cost of creating one full-time equivalent job. The need to reduce the federal deficit implies that amendments to TJTC should concentrate on improving its cost effectiveness. Lowering the rate of subsidy lowers cost and since the proportion of all certifications that represents a net addition to the number of jobs is not likely to decline proportionately with the decline in the subsidy, the cost effectiveness of the program will increase. The following Amendments are recommended.

- o The rate of the subsidy in the first year should be reduced to 25 percent. The rate of subsidy in the 2nd year should be maintained at 25 percent to encourage retention of TJTC eligibles.
- o The 50 percent subsidy rate would be maintained only for the disabled and ex-convicts.
- o The summer student tax credit should be reduced to 50 percent.
- o Consideration should be given to including up to $5,000 of training costs other than the time of the TJTC eligible in the subsidy base. To obtain the extra subsidy the firm would have to certify the skills taught were generally useful and the trainee would have to receive a certificate describing the skills learned.

A number of changes in how eligibility is defined are also desirable.

- o Consideration should be given to substituting a low income unemployed senior citizen (over age 60 or 65) eligibility category for the SSI eligibility category. Older people are particularly sensitive to the stigma of being on welfare. This is part of the reason why only 3,115 vouchers and 1,254 certifications were issued in the SSI category in FY1983. Having a low income is not nearly as stigmatizing so such a change might increase utilization amongst the current SSI populations as well as extending coverage of other deserving individuals.

- o Consideration should be given to substituting a low income unemployed adult (over age 25) eligibility category for the AFDC, General Assistance SSI, Ex-convict and Vietnam Veteran elibibility categories. The stigma attached to being from a low income family is less than that of being on welfare so the programs popularity with employers might increase. This change might produce a significant increase in utilization and therefore in costs.

If a complete restructuring is feasible, consideration should be given to paying the TJTC to the individual on the basis of the number of hours worked rather than paying the employer. The employer need not know and the stigma problem would not arise. This type of a program was tried experimentally and has been shown to greatly increase the employment of randomly assigned youth (Friedman and Lerman, 1983; Rivera-Casale, et al, 1982).

Recommendations for Changes in the Administration of TJTC

Participation in TJTC could be considerably increased if it were promoted more vigorously. If firms are approached in person it should be possible to persuade between 25 and 33 percent of those approached to participate. To this end it is recommended that:

- o Vocational Rehabilitation Agencies, WIN agencies and JTPA agencies should be impowered to certify eligibility.
- o Outreach must be increased and targeted on firms which might hire large numbers of TJTC eligibles. Administering agencies should also target firms that provide training and offer career ladder opportunities.
- o Employment Service offices should receive incentive payments when they certify a TJTC eligible.
- o Income eligibility of job seekers should be determined at the time of vouchering and not redetermined at the time of certification. Local agencies should be required to obtain verification of income reports. It is essential that the integrity of the eligibility determination process be maintained.
- o Welfare recipients who have been vouchered should be discouraged from initiating a discussion of their eligibility with prospective employer but if asked should present the employer with the voucher.
- o Local agencies should be discouraged from expending resources on vouchering when a referral has not been arranged. Instead they should focus on selling the program to firms and asking these firms whether they would like TJTC eligibles to be referred to them.

- Employers must be informed by local agencies as to which eligibility category the individual is in. Ex-cons make up only 5 percent of all TJTC vouchers. It is important that people in other eligibility categories be free of the stigma of being thought to possibly be an ex-convict.
- Application for TJTC certification should be made no later than a day after beginning work.
- Documentation of eligibility should be presented to the employment service no later than 15 days after a request for certification is made. This provision is designed to discourage employers from requesting certifications for everybody hired regardless of whether there is any prior indication of possible eligibility.

Non-targeted Subsidies: The Contrast

There are important lessons to be learned from the U.S. experience with employment tax credits--the New Jobs Tax Credit, the WIN Tax Credit, and the Targeted Jobs Tax Credit. There are dramatic contrasts between take up rates. In 1979, fewer than 25,000 firms received a TJTC and fewer than 10,000 received a WIN Tax Credit. In 1978, 1,100,000 firms, more than 30 percent of all the nation's employers and more than half of the eligible firms, received a New Jobs Tax Credit (NJTC), a non targeted marginal wage subsidy designed to subsidize increases in employment. A 50 percent + participation rate is remarkably high. In contrast, six years after the introduction of accelerated depreciation in 1954 only 21 percent of all proprietorships and 30 percent of all corporations were using an accelerated depreciation method on any component of their capital stock (Ture, 1967). Only 47 percent of the eligible investment put in place between 1954 and 1960 was depreciated using acclerated methods. In the first year of the asset depreciation range system only 1.4 percent of all companies and only 60 percent of the total dollars of new investment in producers durables took advantage of the shorter life time available under ADR. Use of the accelerated depreciation range system is now much greater.

The NJTC seems to have had major impacts upon the economy. In its two years of operation, the NJTC subsidized more than 4 million person years of employment. All three studies of New Jobs Tax Credit have found that it increased employment. The NFIB study (McKevitt, 1978) estimates 300,000 extra jobs by the summer of 1978, the Perloff and Wachter study (1980) 700,000 jobs in 1977 and the Bishop study estimates 150,000 to 670,000 jobs by summer of 1978 in construction and distribution alone. Bishop's study (1981) found that reductions in the margin between retail and manufacturers wholesale prices induced by NJTC saved consumers between $3.8 and $7 billion.

The lesson of our recent experience with employment subsidies is that a subsidy of private sector employment will reach a scale and cost efficiency sufficient to make a real dent in structural unemployment, only if:

1. Employers are able to simply certify their own eligibility.
2. The behavioral response desired of employers is obvious and simple for them to implement.
3. All or almost all employers are eligible (otherwise the result is a redistribution of who employs who).
4. Targeting is essential but it is more important to include all workers in need of help than to exclude workers that don't need the help.
5. The target group is defined by a non-stigmatizing criteria that is visible to the employer (a characteristic of the job like wage rate is better than characteristics of the worker).
6. It is marginal--paid for increases in employment above a threshold like NJTC.

OTHER OPTIONS TO BE CONSIDERED

This section of the paper presents a description and analysis of four other employment training subsidy schemes.

A. A Subsidy of Increases in Employment

Policies that can achieve the twin objectives of stimulating employment while simultaneously reducing inflation must have the effect of significantly lowering the marginal costs of the firm's expansion and maintaining this reduction in marginal costs for a considerable period of time. In competitive markets, a reduction in marginal costs is equivalent to an outward shift of the supply curve and this inevitably results in more real output, more jobs and lower prices. In monopolistically competitive markets a reduction in marginal costs that can be counted on to last for a while will induce the firm to lower its selling price and compete more aggressively.[5] Here again the result is more jobs, more output and lower prices. The stimulus to employment will, of course, be greatest if the subsidy of marginal costs is limited to employment costs.

If well designed, private sector employment subsidies of expansions in the employment and training of unskilled and young workers are an effective means of reducing this stagflation problem. A number of studies have come to the conclusion that employment can be increased and aggregate unemployment decreased by shifting employment demand from skilled labor markets to unskilled labor markets. Two empirical studies (Baily and Tobin, 1978; Nichols, 1980) have found that low unemployment rates in skilled labor markets have a much more powerful influence on aggregate wage inflation than unemployment rates in unskilled labor markets. When analyzed in a general equilibrium framework, it has been found that because of the minimum wage, transfer programs and high wage elasticities of labor supply by teenagers, women and low wage workers generally, a wage subsidy of unskilled labor will increase their employment without significantly reducing the employment of skilled workers even if the skilled workers are taxed to provide the subsidy (Bishop, 1979; Johnson, 1980).

The revenue costs of a significant reduction in the costs of increasing employment can be minimized by setting a threshold (say 1983's FUTA tax base, or aggregate hours worked by all employed in the firm) and subsidizing increases in that index of employment. A subsidy of employment above a threshold is preferred over subsidizing new hires because many firms have turnover rates of 50 to 100 percent. Subsidizing new hires quickly results in one's subsidizing the firm's entire work force. The use of either the FUTA tax base (as was done with the NJTC) or hours worked as the basis for subsidy would concentrate the subsidy on the lowest-skill jobs--exactly the segment of the labor market where labor surpluses are greatest. Such a focus is desirable because a general expansion of the economy will quickly produce shortages in certain skilled occupations and the competitive bidding for the limited number of people with needed skills that will result will rekindle inflation. The subsidy could be even more strongly focused on the least skilled by having a provision that reduces the subsidy if the firm's average wage in 1984 exceeds its 1983 wage by more than some standard amount (say 5%). Such a provision would have the further beneficial effect of putting direct downward pressure on wage inflation. Our experience with the NJTC suggests that a marginal wage subsidy of that type may promote wage inflation. This tendency can be forestalled, however, by reducing the potential tax credits of a firm if its wage increases exceed some wage increase standard. Such a subsidy can be very simple to administer. To calculate its subsidy the firm would need four numbers: total wage bill this year and in the base year and total hours worked this year and in the base year.

How such a scheme would work is most easily understood by examining a specific proposal. (The specific parameters of this proposal are illustrative.) Firms and nonprofit entities would receive a tax credit against Social Security taxes of $1.00 per hour for every hour by which total hours worked (including those worked by salaried management) at the firm in 1985 exceed total hours worked in 1984.[6] A tax credit would also be provided in 1986 for increases in total hours worked over the higher of 1985 or 1984's hours worked. In 1987, the tax credit would be for increases in total hours worked over the highest of 1986, 1985, or 1984 hours worked. The tax credit would be reduced if the firm's average wage (calculated by dividing total compensation by total hours worked) in 1985 was more than 5 percent greater than its 1984 wage. The threshold for the wage increase "take back" might be 10 percent in 1986 and 15 percent in 1987.

A general formula for the tax credit is

$$TC = s \, {}_{i} H_{i_t} - u \, {}_{i}(W_{i_t} - gW_o)H_{i_t}$$

subject to the constraint that $TC \geq 0$ and ${}_{i}(W_{i_t} - gW_o)H_{i_t} \geq 0$

where H_{i_t} = hours worked by people in the i^{th} job during time period t
H_{i_t} = growth of employemnt in the i^{th} job above the threshold
W_{i_t} = hourly wage rate of the i^{th} job in time period t
W_o = the firm's average wage in the base period
s = hourly tax credit
g = wage growth standard, $g > 1$
u = take back rate

An increase in the wage rate is taxed at the rate u. This discourages wage increases above the standard. An expansion of hours that leaves the composition of employment unchanged is subsidized at the rate of s dollars per hour. Where expansions are not proportional and the firm is in the take back region, the tax benefit depends upon the wage rate of the jobs that are expanded:

$$\frac{dTC}{dH} = s - u(W_{i_t} - gW_o)$$

If, for instance, s = \$1 per hour, u = .1, and gWo = \$8.00 an hour, offering an additional job paying \$4.00 an hour would generate a tax credit of \$1.40 per hour, expanding a job paying \$12.00 would generate a credit of \$.60 an hour, and expanding a job paying \$18.00 an hour would generate no credit.

This type of a marginal employment subsidy has a number of attractive features:

1. Firms are encouraged to increase employment by hiring inexperienced workers and training them rather than by increasing overtime work or bidding experienced workers away from other firms by raising wages.
2. Within each firm it tends to target the employment stimulus on the least skilled workers. (This occurs because hiring extra low wage workers lowers the average wage of the firm, and this helps the firm meet the 6 percent wage increase standard.) The increase in demand at the unskilled end of the labor market should produce large reductions in the unemployment of youth and the disadvantaged.
3. Targeting on less skilled workers is accomplished without giving low wage firms a proportionately larger subsidy.

4. Firms are encouraged to slow the rate at which they increase wage rates.
5. Both marginal and average costs of production are reduced, while simultaneously, wage increases above the standard are taxed. Penalty tax incentive based income policies (TIP's) in contrast, have the disadvantage of raising marginal and average costs, and therefore, prices of firms that violate the wage standard (Seidman 1978 and Dildine and Sunley 1978).

It is a balanced anti-inflation program. The subsidy component lowers price inflation and the wage increase "take back" lowers wage inflation.

B. The Re-employment Voucher

The re-employment voucher proposed in Amendment #518 to HR 1900 offers a worker the option of using his entitlement to Federal extended unemployment insurance benefits as a job subsidy rather than as income maintenance. It has some attractive features:

- The voucher can be used to subsidize any job whether it is at a for profit or a not-for-profit organization and regardless of whether the employer has a positive tax liability.
- It seems to be simple for the employer to administer.
- Worker eligibility is defined by a characteristic (being unemployed for six months) that is already known by the employer. Hence if a job seeker advertises his eligibility for the voucher, it should not have the effect of stigmatizing him/her any more than they already are stigmatized by virture of the long-term unemployment.
- The size of the voucher payment is related to how long the individual works at the new firm.
- The job-seekers previous employers are ineligible for the voucher--not excluding them would have produced an incentive to lay off workers with plans to rehire them six months later.
- Payments are made to the firm almost immediately after hiring the worker, reducing the working capital needed to expand employment.

It should be noted that most of the long-term unemployed will not be eligible for this voucher. Many of the long-term unemployed are not receiving UI because prior to their current spell of unemployment they worked for too short a period of time in covered employment. Only about half of all unemployed workers are currently receiving UI. Others will be ineligible because they will not hear of the program's existence in the one month period they have to sign up for it.

Participation Amongst Eligibles

Since the legislation does not require the job seeker to give up his UI eligibility before finding a job, there are two ways a job seeker can get a subsidized job. He/she can get the job first and then apply for the voucher (this must be done before or during the one month period of eligibility), or he/she can apply for the voucher (temporarily giving up the supplementary UI benefits) in the hope of finding a job. I would not expect this latter mechanism to be very important. The reason is that participation requires a positive act on the part of the job seeker in which he or she temporarily sacrifices next week's UI payment in hopes of quickly getting a job because of the subsidy. If the job search with voucher in hand is unsuccessful, he or she can get their supplementary UI benefits later, but since most people unemployed for six months or more have severe cash flow problems, many will not be able to afford a one or two month period of no UI benefits, especially when the out-of-pocket costs of job search are higher because of the increased search intensity.[7]

A second reason for not expecting many eligibles to choose the voucher without already having arranged a job is that job seekers seem to be averse to announcing to prospective employers that they are on "sale", i.e., can be obtained cheaper. This has been reported by counselors who deal with TJTC eligibles. It may be for a good reason, because two experiments in which TJTC eligibles were taught to use their eligibility for TJTC as a selling point in their job search (one in Dayton, Ohio, the other in Wisconsin) have found that TJTC eligibles randomly assigned to be trained to mention the TJTC were less likely to find a job then other TJTC eligibles. The reason that advertising one's TJTC eligibility seems to have this effect is that announcing one's eligibility tells the prospective employer something--I am a welfare recipient, from a low income family, or an ex-con, etc.--that in most cases the employer did not know before and that stigmatizes the job seeker. Presumably, the voucher for being unemployed long enough to receive supplementary UI will not have the same effect, but one cannot be sure.

If participation is to reach a reasonable level, it will require initiative on the part of the employer or a labor market intermediary. One can envision an employer putting in a job order at the Employment Service (ES), "I have x jobs for people who have recently become eligible for Federal supplementary payments. They do not have to have chosen the voucher yet, only be eligible to choose the voucher". If the ES cooperates with such requests, the firm's costs of finding eligible workers will be low. The firm can offer the job to the eligible job applicant it feels is most qualified on the condition that the person apply for the voucher.

An alternative mechanism that does not require the firm to request referrals from the ES (70 percent of firms with vacancies do not ask for referrals from the ES) would be for it to screen job applications searching for people who have been out of work the required amount of time (e.g., 5 to 7 months), and then ask those who seem to be eligible for the voucher when their regular UI will be or was exhausted. The firm would select from amongst the eligibles and offer the job on the condition that the applicant apply for the voucher. If an attractive job candidate is not yet but soon will be eligible, it would seem likely that the applicant will be told to return when he/she is eligible. If this candidate is particularly well qualified and the firm does not expect future openings, the voucher might cause a firm to postpone filling a vacancy until the not yet eligible job applicant becomes eligible.

The example just discussed illustrates one of the problems that arise from targeting a benefit on people unemployed for a particular period of time. Even if the voucher does not cause a firm to hold a particular job open while waiting for the preferred candidate to become eligible, its main effect will be to change who is hired, not increase total employment. Senator Quayle acknowledges that "the amendment will not overcome low demand for workers, but it will target employment to the long-term unemployed". The designers of the voucher scheme have set their sights too low. The objective should be increasing total employment and reducing unemployment without rekindling inflation, not just redistributing the pain of unemployment. Any governmental intervention in the labor market involves some cost and some distortions. If one must incur these costs, they need to be justified by benefits to one job seeker that are not offset by losses to other job seekers.

C. Marginal Training Subsidy

A marginal training subsidy (MTS) would offer a partial subsidy of training expenditures above a threshold level. The rate of subsidy or tax credit would be set somewhere between 10 and 30 percent. The training costs that would be eligible for subsidy would include payments to industry training funds, tuition reimbursements for job related training, contributions of materials or staff time to vocational/technical institutions, the budgeted costs of the firm's formal training of new and continuing employees, and certain of the costs of informal training of new and upgraded employees.[8] Participating companies with more than 100 employees would be required to have a training advisory committee that contains worker representation.

While the measurement of the costs of informal training is difficult, it must be attempted if choices between formal and informal training are not to be distorted.[9] The subsidizable costs of informal training would be limited to trainee time and trainer time during the first year of employment or during the first 3 months before or after a major promotion and change in job responsibility. If the training is formal, certain additional expenses--books and materials, rental on teaching machines and equipment or office space dedicated entirely to training, and payments to training vendors--would be eligible for subsidy. Formal training would be subsidizable regardless of length of tenure and whether the worker is receiving a promotion. At the conclusion of the training program or the firm's fiscal year, the employer would be required to award each trainee a certificate describing the number of hours of formal or informal training provided/attended, skills taught and where appropriate, the competence achieved.

The threshold which must be exceeded before a subsidy or tax credit would be paid would be equal to 10 percent of the firm or establishments wage payments to employees with less than one year of tenure at the firm plus 1.5 percent of wage payments to all other employees. The threshold is higher for firms with many new employees because (a) new employees tend to receive more training than continuing employees and (b) the costs of informal training are subsidizable only during the first year on the job and for a short period before and after a promotion.

A subsidy above a threshold has some important advantages over an obligation to spend a minimum amount on training:

- o Firms that are big trainers (and therefore probably efficient trainers) of skilled workers would always face an incentive to expand their training.
- o In France where an obligation to spend a minimum amount on training is in operation, the great majority of French employees work at firms which exceed their obligation to spend on training so at the margin, there is no public encouragement of additional training for the majority of French workers. A subsidy above a threshold avoids this problem.

- Paperwork is reduced because most firms would not apply for a subsidy in most years. Year-to-year variations in training expenditures are likely to be large at small firms. Such firms would most likely spend above the threshold only in years in which there is a major expansion of employment or the installation of new equipment.
- Employers who feel the administrative burdens of the subsidy are too high, are free not to participate.

All employers—profit making, non-profit and governmental--should be eligible for the marginal training subsidy if their training expenditures exceed the threshold defined for their organization.[10] In order for incentive effects to be maximized, employers must feel they are assured a larger subsidy payment if they increase their firm's training investment. Together these two considerations imply that the MTS should be administered either as a subsidy entitlement, as a tax credit against a broad based tax on the firm's wage bill like FUTA or social security, or a tax credit against income taxes that can be sold to other firms.[11] The MTS would be financed either out of general revenue or a special training tax on the wage bill of all employers. In order to give firms time to set up the accounting procedures to record training expenditures, it would be phased in at least a year after the legislation is passed.

The MTS has a number of important advantages:

- The social benefits of on-the-job training are probably just as large as the social benefits of occupationally specific training provided by schools. The MTS would create an incentive for firms and workers to generate more of such benefits and would reduce currently prevailing distortions of the choice between these two modes of providing occupationally specific training.
- Since the employer pays 67 to 90 percent of the cost of training, there is always an incentive to do the training in the most efficient manner possible.
- Choice of which jobs to train for and how to do the training is made by the employer not by an educator, a government bureaucrat or by the trainee. The employer is the person best able to project the firm's future need for skilled workers and to select the best method of training for those skills.
- The inclusion of the costs of informal training in the definition of subsidizable training expenses is fair to small business and avoids distorting choices between formal and informal training.
- While the MTS is not directly targeted on the unemployed dislocated worker, it will reduce unemployment nevertheless, and would do so more efficiently than a targeted program like an ITA or the reemployment voucher. The MTS reduces unemployment in two ways:

It encourages firms to hire and train new workers; and to retrain rather than lay-off workers whose skills were becoming obsolete.

It encourages the firm to expand the supply of skilled workers rather than engaging in a bidding war for the limited supply of already trained workers thus producing an acceleration of inflation.

- o The MTS should discourage turnover. A firm with high rates of turnover will have a higher threshold and will as a result receive a smaller subsidy payment.

The MTS has as its objective expansion and intensification of on-the-job training. Only two small reforms of current practice are proposed--training advisory committees at firms with more than 100 employees and providing the trainee a certificate describing the training that has been received.[12] All the really important decisions--who is to be trained, what is to be taught, and how it is to be taught--are made by the employer and the worker (the workers influence these decisions through representation on the training committee, by bidding for jobs that require training, by selecting an employer who provides the desired training, and the commitment that is given to learning the material that is presented).

Employers and workers probably invest nearly $100 billion of time and resources in formal and informal on-the-job training each year. Consequently, covering all employers and all kinds of training inevitably means costs can be kept down only if the subsidy rate is set rather low, the definition of subsidizable expenditure is restrictive and the threshold is set rather high.

D. A Critical Skills Training Incentive

An alternative approach to promoting more private investment in on-the-job training is to target certain critical occupations that are experiencing severe shortages. A subsidy would be offered for training newly hired and/or transferred employees in a few selected occupations.

Selecting Skills for Which to Provide Training Incentive

Legislation would restrict the subsidy to a limited number of industries that currently export a major share of their output, or are service firms that provide specialized high tech services.[13] To be eligible for a training subsidy, an occupation/skill would have to involve considerable initial on-the-job-training, be required at many firms, and be in shortage. The determination of whether an occupation is in shortage would be based on current data on changes in relative wage rates, changes in vacancy rates or newspaper advertising if available, and on recent and projected growth of demand for the skill.[14] The Department of Labor would be given a fixed budget and empowered to select a limited number of skilled jobs for which training subsidies would be available.

Once an occupation had been selected as a potential candidate for subsidy the Secretary of Labor would appoint an industry/labor committee to make recommendations regarding the definition of the critical skill, the competencies that a trained individual would be expected to have, and possible mechanisms to insure that subsidized trainees achieve these standards. The Department of Labor would do a small survey of the costs of training and the length of the training period that would serve as a basis for calculations for median training cost.[15] The Secretary of Labor would be empowered to make competency certification (under the auspices of a multi-employer or union umbrella organization) a part of the mechanism for defining eligibility for a critical skills training subsidy.[16].

Administration of the Training Incentive

Application for a subsidy of a particular trainee must be made within one week of the start of the training (within one week of the date of beginning work in the case of a new hire).[17] The requirement of immediate application for the training subsidy has three purposes: (1) by forcing the firm to be aware of the subsidy when it begins the training, it maximizes the subsidy's incentive effect and reduces retroactivity, (2) it allows DOL to continuously monitor the number of trainees its program has stimulated, and to project future costs and the fullfillment of its goals, (3) for the firm it locks in the terms and conditions of subsidy that prevailed at the date training was commenced. If DOL determines that more (less) training is being undertaken than needed or was budgeted, it has the right without advance notice to restrict (liberalize) the definition of subsidizable jobs/skills, lower (raise) the training cost allowance or end that occupation's eligibility. Changes in rules would apply to all training programs begun one week or more after the announcement of the change.

There would be no limit to the number of trainees for which an employer could be subsidized, and the firm would not have to obtain advance agreement from DOL as to this number. The employer would only have to certify (1) that the training provided results in the worker's attaining the critical skill, and (2) that the trainees did not have that skill prior to the training. This certification would be audited on a random basis.[18] Workers who complete training would be awarded a certificate attesting to the skills they have achieved. The skills taught by the training program would be described in detail either on the back of the certificate or on an attachment.

The administration of this Critical Skills Training Incentive has been described in considerable detail for several reasons:

- the popularity of the program with employers will depend upon how easy it is for them to administer it,
- the power of the incentives it produces and the cost of the program may depend upon seemingly minor administrative matters (such as when application for subsidy must be made),
- the primary concern about proposals such as this is whether they can be administered, so there needs to be a demonstration of the feasibility of the program.

The plan described has a number of attractive features:

* It is limited in scope to occupations in critical shortage.
* Great flexibility is given to program administrators. (This is essential because the very concept of the program is new and because it must quickly respond to the changing needs of the economy.)
* Workers who complete training are awarded a certificate that describes the skills they have gained.
* The firm always faces a marginal incentive to expand its training of targeted skills. (It does not have to get prior agreement from DOL about how many people to train an administrative hassel that would be a major barrier to participation.)
* The firm is given an incentive to retain the workers it trains.
* Despite the almost 'entitlement' nature of the training subsidy, its total cost is capped by the monitoring of usage and DOL's ability to lower subsidy amounts and tighten eligibility.
* A sunset provision automatically ends a skill's eligibility for subsidy.
* Cost could be further reduced by requiring that firms already employing people in the targeted skilled occupations exceed a given level of training before being eligible for subsidy. It could be assumed that in the normal course of events such firms would have to replace 10 percent of their stock of workers with the targeted skills anyway. The subsidy could be paid for trainees above this threshold.
* It complements the Subsidy of Increases in Employment described in the first section.
* The firms administrative costs are kept low. The firm does not have to calculate and report how much it is spending on training.
* Eligibility for subsidy is a function of an output--the number of people trained for certain specific jobs--not a measure of input. This creates a strong incentive to be as efficient as possible in doing the training.

The Critical Skills Training Incentive has some important drawbacks, however. Its success depends upon the wisdom and timeliness of the selection of skills for which training subsidy is provided. Experience with federally funded graduate fellowships should remind us how difficult it is for government to forecast future demand for a specific skill and implement decisions to extend or withdraw training subsidies in a timely manner. Graduate fellowships were originally targeted on a few shortage fields thought to be critical to national defense. However, other fields campaigned to be included and new programs were started until almost every field of study was included in at least one agency's fellowship program. The number of fellowships expanded even after the shortages of PhD holders that gave rise to the programs were replaced by surpluses. The CSTI has features--the sunset provision, great administrative flexibility and a fixed budget--that are intended to prevent a recurrence of the poor timing that characterized the graduate fellowships programs. There is always the possibility, however, that the projections of future demand will be wrong or that politics will result in the wrong occupations being selected and that the selective nature of the training incentive would increase rather than decrease market distortions.

FOOTNOTES

1. The Research Division of the National Center has a grant from the Department of Health and Human Services to conduct a more intensive analysis of the TJTC questions in the NCRVE employer survey than has been done so far. I would like to thank HHS for their support. This work has only just begun and is not at a stage where I can report on it. Consequently todays testimony is a synthesis of what has been learned from part analyses of these and other data on TJTC and other published studies.

2. The congressional budget office has estimated that there were 5 million disadvantaged youth in March 1983. In FY 1983 there were 259,309 certifications in this category.

3. What is important for the cost effectiveness of the program is how the existence of the program and resulting experiences with eligible workers change employer perceptions of the productivity of eligible workers. If the very fact that government has chosen to subsidize the hiring of a particular group causes employers to anticipate even lower output from the group, the program will not be cost effective. If, on the other hand, participating employers discover that elibibles are better than they previously thought, the program will be very cost effective. Since employers are reporting that the TJTC eligibles they hire are only slightly less productive than other workers in the same job and some employers are rapidly expanding their hiring of TJTC eligibles, the tax credit may be having the desired effect of raising some employer opinions of the productivity of disadvantaged workers.

4. In a demonstration program in Fond du Lac, Wisconsin, job developers for a short term try out and train employment subsidy found that 4 of every 10 firms contacted agreed to participate. (Public/Private Ventures, 1983. p. 28.)

5. The primary purpose of the subsidy of increases in employment is to induce increases in output and thereby correct the distortions produced by the prevalence of monopolistic competition (Price > marginal cost) in our economy. Its marginal character is not new. Investment tax credits and liberalizations of depreciation rules that are not retroactively available to already installed capital equipment have had the effect of lowering the long run marginal cost of many products below the prices that prevailed at the time of the tax change.

6. To insure that the employer was at least aware of the tax credit at the time employment decisions are being made, preliminary application for it would have to be made by July 1, of the calendar year for which subsidy is requested.

7. An important feature that is not specified in the legislation is whether if job search is unsuccessful the supplementary UI payments are retroactive payments for the period of unsuccessful job search, or whether they are extended eligibility for payment for the weeks of job search following the request for the UI payment. The former is to be preferred.

8. To insure that only training gets subsidized/not vacations or motivational sales meetings, subsidizable expenditures might be defined to exclude (1) travel to a remote site other than the company's national or the appropriate regional headquarters, (2) housing and food expenses of more than $100 a day, (3) costs of training non-employees, part time employees working less than 50 hours a month or employees for whom more than 50 percent of compensation comes from commissions, (4) payments to speakers or presenters of a training session of more than $1000 or $200 per contact hour which ever is higher. The costs of developing a training package or system for use in training ones own staff would be an allowable expense.

9. A trainee would be considered to be engaged in formal or informal training if he is receiving group instruction, being instructed by a computer, reading manuals or instruction booklets watching others do the work or being shown the work. A trainer, supervisor or coworkers time would be considered to be engaged in a training activity only if 100% of the trainers attention is devoted to the training purpose. If any output is produced during a training activity it would have to be given to the trainee, discarded or given away. The following tests could be used to define a promotion for purposes of calculating subsidizable training expenses: there would have to be a new job title, noticeably different job duties and a wage increase of at least 6% above the standard seniority or cost of living increment and the individual could not have held that particular job before. In order for new employee training to be subsidizable it would have to be associated with a wage increase by the end of that year off at least 10 percent over and above the rise in the cost of living.

10. To insure that employers who receive an MTS subsidy were aware of the program at the time it might influence their behavior, it could be required that the employees make a preliminary application before July 1 of of the calendar year for which a subsidy is sought.

11. If the MTS is a subsidy, subsidy payments would be taxable income. If the MTS is a tax credit the firm would have to reduce its reported social security or FUTA tax payments by the amount of the tax credit.

12. To the extent that the accounting rules used to distinguish training activities from production activities affect the way training is conducted this is an unfortunate unintended consequence of the necessity of defining a dollar quantity of training expenditure for each firm.

13. Examples might be communications, machinery, instruments, chemicals, pharmaceuticals, electronics, computer service and R & D laboratories.

14. For a skill to be eligible, both recent and projected rates of growth would have to be high. Projections of future growth should be based on a methodology that can be updated on a quarterly basis and that uses contemporaneous market signals (such as current or forward prices of the industry's product, new orders, current industry sales or employment) to project future employment. The methodology must be capable of giving timely warning of industry turn arounds like the one that occurred in

1981 in oil drilling and exploration. A projection of rapid growth would be sufficient on its own (in the absense of high past rates of growth) only if the evidence is particularly strong (e.g. Congressional passage of obligational authority for a huge multi year contract). Where classroom training at schools or colleges substitutes for OJT, information on the number of graduates of such programs (recent and projected) would have to be compared to growth of demand.

15. The survey would not be very costly and would not take long, once a sample of employers who have trained such workers was obtained. While visits to establishments by specialized staff would be the preferred mechanism, it could be done over the phone. A telephone interview approach to measuring on-the-job training costs for specific jobs has been developed by the National Center for Research in Vocational Education and implemented by the Gallup Organization at a cost of less than $75 per interview. The training costs that would be measured by this survey would include:
1) payments to outside vendors such as a training institution,
2) depreciation on machinery 100 percent devoted to training,
time of specialized training personnel that is spent in contact with the trainee or preparing lessons,
4) time of supervisors or coworkers spent giving formal or informal training to the non-worker above a 40 hour minimum,
5) time of the trainee that is spent in a formal or informal training activity that is not directly productive.
The survey would also serve as a basis for developing an operational definition of the job or skill for which training subsidies would be provided, and for the levels of the skills. The results of the survey would be reviewed by DOL staff and the industry/labor committee. DOL staff would make a formal recommendation to the Secretary which the advisory committee could endorse or take exception to as it wished. Training costs allowed in future years would be indexed to the economy's average hourly wage, so the survey would only need to be done once.

16. Systems for competency certification currently exists in construction, telecommunications, banking and a variety of other industries. In some industries and occupations, an existing system(s) could be adopted "as is" or modified; in other industries and occupations a new system would have to be developed. Since an occupation is eligible for a critical skills training subsidy for only a limited period, a judgement would have to be made as to whether the benefits of competency certification would outweigh the inevitable costs and delays that such a requirement would impose. In addition, in certain fast changing fields codifying what must be learned in this way might not be desirable. There would be an expectation that the organization sponsoring the competency certification would continue the service after the end of the period of the occupation's eligibility for CSTI. Conditioning the CSTI on the existence of competency certification would tend to encourage industry groups seeking designation of one of their job/skills as a critical skill to create a certification process for that job.

17. The application form could be quite simple, requiring only the name and social secruity number of the trainee, employer ID number, the training establishment's name and address, the firm's name and address, the skill

for which training is being provided, the trainee's wage, and a description of the job (including its wage) for which he/she is being trained.

18. An advance opinion as to the eligibility of a proposed training program (binding on DOL) would be available to employers who request it. The calculated amount of subsidy would be paid in equal semiannual installments over the training period that has been established for that skill. If the worker is employed at the firm for less than the full training period, the subsidy payment would be prorationed for the period he/she was at the firm. The payments would be taxable income. Training establishments would submit semi-annual bills to DOL for the subsidy payments due to it. The payment would be made to the training establishment firm) because auditing would be carried out at the establishment level, and because the payment then shows up in the right place in multi-establishment firms with divisional profit centers.

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Dr. Bishop. Thank you.

Given that I have 3 minutes, I am not going to attempt to discuss all of the results of the research we have done. We have had three large-scale surveys of employers; we have talked—through various people who did our interviewing for us—with maybe 8,000 or 9,000 employers.

I will boil it down to some recommendations.

I think the emphasis should be on increasing the cost effectiveness of the program, increasing the program's bang for the buck. And with that idea in mind, I want to draw from the studies what can be drawn in order to make suggestions along those lines.

Studies have found that employer utilization of this program and similar programs are not very sensitive to the amount of the subsidy. It is much more important how you administer the program, and there is a lot that needs to be done to improve the administration of this program. Many people have already made some suggestions and I will make some more; but since that is not something you can put into legislation, I think maybe the emphasis in discussion should be on legislative changes in the program.

The second thing we found is that in our interviews with employers, most of the jobs are very low-wage, and they offer very little training.

I think it would be desirable to encourage more training be provided on these jobs, and emphasis and some preference be given to jobs that involve a lot of training.

Consequently, I recommend lowering the rate of subsidy to, let's say, 25 or 33 percent instead of 50 percent; keep the cap at $6,000 on wages, but allow as a subsidizable expense training costs, payments to people other than the trainee or the TJTC individual that are involved in training that individual, and there would be a cap of let's say $5,000 on those expenses.

The purpose would be to give a greater incentive to jobs that involve a lot of training, and a lesser incentive to jobs that involve little training.

The reason for reducing the rate of subsidy is, one, it would save money. If you went down to 25 percent, it would cut the cost of the program per person subsidized in half; and yet, I don't think it would reduce the response to the program by nearly that much. Therefore, the cost effectiveness of the program would go up.

This is justified, also, because we asked employers: "How productive are people who receive TJTC's?" We asked them to compare the TJTC employee that they hired to other people in basically the same job who were not subsidized by TJTC. Some people, I think it was 55 percent, are reported to have the same productivity as nonsubsidized employees in the same job. About 10 percent were more productive, and 35 or so percent were less productive. When you average out the less productive against the more productive, on average the TJTC people were about 7 percent less productive than the individuals who did not receive a TJTC.

What that suggests is that it does not require a 50-percent subsidy, except for possibly a few eligibility categories, such as the disabled, to induce firms to participate in the program and to make use of it. So, consequently, I think some consideration ought to be given to both lowering the rate of subsidy and simultaneously allowing training costs to be included in the expenses.

Senator HEINZ. A point of clarification. You said that targeted jobs tax credit people were less productive. Did you mean at the beginning? At the end?

Dr. BISHOP. Well, the differential was greater at first than it was later. Our data goes only about a year into employment at the firm, and so we are not looking at 3 or 4 years down the line.

Senator HEINZ. But you provided a number, I think 50-percent less productive. Was that at the beginning or at the end of 1 year?

Dr. BISHOP. Well, we have asked questions along these lines three different times, and we get slightly different answers at different points. It is a larger reduction in productivity initially than it is later. This 7-percent number is the most recent study we did. In another study it was 4 to 12 percent initially, and then it dropped to 4 to 5 percent at the time of the interview, which would have been about a year later. That's on average.

What most employers are doing is, a lot of them, of course, are giving preference to the target group, but they are trying to look within that target group and pick out people who are just as productive as they normally would be hiring. And they are doing their best to get the best person they can.

Consequently, I think that a subsidy rate of 50 percent isn't essential; what is much more important is the administration of the program and reducing paperwork costs and having the administering agencies be more gung ho in promoting that program. That can have major impacts upon participation.

For example, the participation rate in States like Alaska, South Dakota, South Carolina, is about four or five times the participation rate in States like Texas and California. And that's not due to greater numbers of eligibles in the State, it is due primarily to the mode of promotion and administration of the program by the State agencies and local agencies who are responsible.

Senator HEINZ. We are going to hear from the State of Maryland in a few minutes on their experience.

Dr. BISHOP. Yes; and a lot can be done there. In fact, much of the increase that has occurred in the last year is most likely due to the pressure that the Department of Labor has placed upon the State agencies to promote the program more. And much more can be done in the future.

So the program has a participation problem right now, but the solution to that problem is in administration and not through trying to make it more generous.

I think an inclusion of training costs in the eligibility, in the base, would be desirable.

A few comments on who should be included: I agree with the suggestion of medically determined disability, though that needs to be done by the Social Security Administration and not by the person's own selected doctor.

The other group I would suggest that you consider is people who are in families who meet the income test for the program and who are over age 24, and who are unemployed. That would be a large eligibility category, so you are talking big bucks most likely, if that group were included; but I think an income test is a much better requirement than 6 months of unemployment. Simply requiring both unemployment and a family income below the 70 percent of the BLS living standard would be sufficient to target it on the disadvantaged groups.

I don't think it is a good idea to include in-school 16- and 17-year-olds or high school dropouts. There again, I think you should wait until age 18 to be eligible, except during the summer.

I think I have used up my 3 minutes.

Senator HEINZ. Thank you very much, Dr. Bishop.

Mr. Robison.

STATEMENT OF DAVID ROBISON, PARTNER, RSN HUMAN RESOURCES, WASHINGTON, DC

Mr. ROBISON. Senator Heinz, I would respond to one key point, and I wish Senator Dole were here.

Senator HEINZ. His staff is ably represented by George Keeler, who is hanging on your every word. [Laughter.]

Mr. ROBISON. TJTC, I believe, is revenue-neutral. I recently completed a study of 1,500 certifications from actual wages, tax credits, across the Nation, with every type of employer among the primary users. I have talked frequently with the Treasury Office of Tax Analysis to see where my results come out that are so different from theirs. The only difference, really, is whether you count increased taxes.

As you will hear in the Maryland study, when you use a control group you find that roughly the TJTC-certified people have doubled the income gain compared to their peers. This suggests that we can properly, and should, use the increased taxes that result from it.

Also, we are talking about net tax credits. I found a net average tax credit of $544. If you multiply it by the total number of certifications, right now we are talking about $283 million of cost. When you add in the Government savings, the savings when Government subsidies are ended by employment, that is reduced below $150 million. When you add in the increased taxes, it is reduced below $50 million. When you add in the tax payments to State governments or the Government savings for States, the cost is virtually zero.

The Treasury agrees that you should calculate the Government savings, but they can't put a number on it. Their only difference is on the increased taxes. They feel that there is no net national increase in income. But I think commonsense would suggest that when the certified people have such large income gains compared to their peers, that there are increased tax payments.

The gains to the individuals are very substantial. They are 76 percent, covering 6 months prehire to 6 months posthire.

In some ways, this balance misses the key points. We are talking about preferential hiring. There has not been a single retroactive certification since mid-1981. This program is the only major preferential-hiring program in existence now. In CETA we had 22 percent to 29 percent placements in the business sector; we now have 100 percent placements with TJTC from the beginning. In CETA, the average cost of placement was at least $3,000, often $5,000; now, I come out with under $100 per placement in the business sector.

Last night TJTC was not included in the House tax package, and, Senator Heinz, we look to you for leadership. TJTC will fail if it doesn't get into the Senate package.

Senator HEINZ. Not only that, I don't know how much support Senator Dole's tax package is going to have if it isn't in the tax package.

Mr. ROBISON. Thank you.

Senator HEINZ. Got that. [Laughter.]

[Mr. Robison's prepared statement follows:]

RSN

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March 1, 1984

Testimony of David Robison, Partner, RSN Human Resources,
Washington, D.C.

Re: S. 2185 to extend the Targeted Jobs Tax Credit

Mr. Chairman, I have recently carried out a broad study of the actual costs and benefits of TJTC.

This study was based on random sampling of 1510 certifications across the nation. The sample covered every region and state, and reflected the major TJTC user industries and employers.

Based on the study, I have reached these conclusions:

1. The Treasury cost estimates for TJTC do not reflect the overall cost to government.

The Treasury leaves out government savings from reduced subsidies and transfer payments.

It also leaves out increased tax payments.

2. TJTC is revenue-neutral: It does not produce any appreciable cost to government when these government savings and increased taxes are included.

3. The benefits to individuals are very substantial. The average income gain was 76%, comparing post-hire to pre-hire income.

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Let me explain these conclusions.

There are real increases in income and tax payments for

TJTC-certified workers compared to their peers. Thus, we must count the increased taxes -- personal taxes, UI payments by the employers and employees, and Social Security taxes -- that result from TJTC.

There are real government savings for TJTC workers, again compared to their peers. Half of the certified workers in our sample had received UI, welfare and other government payments at the time they were hired. These subsidies were ended by employment.

Consequently, when we take the net tax credits, and subtract the increased tax payments and the government savings, we find that TJTC is not an overall cost to government.

Our study allowed for alternate employment effects, uncertainties about some government savings, and other problems. Even with these adjustments, the result was still the same:

TJTC is not an overall cost to government. Indeed, the savings and increased taxes seem to be as large or larger than the net tax credits.

The Treasury acknowledges that government savings may be substantial, but it does not attempt to quantify them.

Thus, it seems acceptable to everyone to bring the government savings into our judgement.

As for increased taxes, the Treasury does not count them, nor does it wish to count them. It feels that there is no increase in national income from TJTC, therefore no increased taxes.

Common sense suggests that such dramatic increases in income of certified workers, compared to their peers, brings higher tax payments.

But even if we leave the tax payments out, we are still left with a balance of net tax credits minus governments savings.

This balance is very low: I place it at a cost of under $150 million per year. If the tax payments are included, then the balance suggests an overall cost to government of under $50 million per year at the present usage.

In some ways, this balance misses the key points about

TJTC: What are the benefits to these individuals? Are they worth the cost?

TJTC is the only major preferential hiring program in existence. Without TJTC, placements of the handicapped, low-income youth, AFDC and welfare recipients, and others will suffer.

TJTC means 100% job placements into the business sector. By comparison, in CETA we had 22% to 29% placements into the private sector -- both profit and non-profit.

As to cost, this study suggests a cost per placement of under $100. By comparison, job placements costs in CETA training averaged at least $3,000 per person, and often up to $5,000 per person.

Let me conclude with this one message: Senator Heinz, TJTC was not included in the House tax package. Without your leadership, TJTC will die unless it is put in the Senate tax package.

On behalf of the many public and private agencies serving these targeted groups -- with whom I have worked and written about in the past ten years -- we look to you to help us. We must either get TJTC into the Senate tax package now or lose the key job placement tool we need.

Senator HEINZ. Mr. Lorenz.

STATEMENT OF EDWARD C. LORENZ, TJTC COORDINATOR, STATE OF MARYLAND, DEPARTMENT OF EMPLOYMENT AND TRAINING, BALTIMORE, MD

Mr. LORENZ. Senator Heinz, I want to thank you for an opportunity to provide you with some information on the Maryland evaluation of TJTC.

In 1982, in December 1982, the Maryland targeted jobs tax credit office was asked to do an evaluation of TJTC for the Maryland General Assembly, for the State legislature The purpose in that was to consider possible State credits similar to TJTC, and one was enacted as a result of the evaluation.

Essentially what we did was, we looked at a group of about 800 individuals who were eligible for TJTC. Half of them were certified for TJTC in the first 6 months of 1981. We tracked their wages for a year before they went to work under TJTC and a year after, compared the results for that group with an equal number of individuals who were eligible but not hired under the program in that same time period.

The results, briefly, were that we found the individuals hired under TJTC did experience somewhat higher earnings over the year following eligibility and hire, something under $1,000; but still, added up for all of the individuals, it is a significant amount.

The net cost of the program, and I think this is the primary data that may be of help to the committee, the net cost we found, totaling the tax credits that the businesses could have claimed and the wages paid to the individuals less the add-back provision of the credit, which does reduce the net cost to the Treasury, less increases in personal taxes paid by the targeted workers compared to the control group and less savings in transfer payments—welfare benefits, unemployment insurance, this sort of thing, that are paid out—the net cost we came up with was approximately $470 for each person who was certified.

Looking at last year's national total, this was not part of our study but it would appear that that would indicate something under $200 million in net costs to the Treasury in the first year after someone is hired, this amount by the second year after hire would be offset totally by increases in tax payments and reductions in transfer payments.

So, we saw very little cost—net cost—in the program. There would be some in the first year, however, that has to be considered.

The primary problem that we note with the program has been that of reaching the eligible population. I think Dr. Bishop has brought this out, and others. We don't say we found a solution, but we think there are a lot of things that can be done. Some are the responsibilities of the States that are administering it and the other agencies that have a role in the program; but a few provisions in the law, which we consider to be really just technical problems, I think, if adjusted, could greatly increase the level of vouchering.

There were six items that we think would help. Just very briefly:

One would be—and this may be the source, incidentally, of the AFL-CIO comment about retroactivity continuing—we think a recognition in the Tax Code of the voucher, in a sense favoring vouchers produced before people go to work over vouchers produced after people have been hired, would be a benefit.

A second problem is that the income standards used in the program have not been produced by the Bureau of Labor Statistics for over a year. The law requires us to use a certain set of standards that is not being adjusted. Related to something that Mr. Kolberg and others have brought out, if an adjustment is to be made here, it would seem as if a correlation between the TJTC guidelines and the guidelines used under the Job Training Partnership Act would be of help in increasing the number of people vouchered. It would just make it much simpler for agencies with, we assume, very little net difference in the numbers eligible.

A third change would be to make sure that we do have current regulations. Now, the Treasury has helped in that way, but we are still waiting for the regulations to be final, and we have not had a current handbook.

Senator HEINZ. Would that be a legislative change?

Mr. LORENZ. No, that is not. But if the committee could help, yes. You are right, Senator.

Fourth, it is not a responsibility of this committee. While we think there is sufficient administrative money to basically run the program, we have not had a problem at least in Maryland with that, we do think it would be very wise if some consideration is given in funding of State agencies and other agencies that produce vouchers, providing incentives in the funding for vouchering; that is, paying more for those agencies that voucher more, and less for those that voucher less.

A fifth consideration, and just a minor one in program promotion, would be to adjust the amount of wages that the credit can be claimed upon from $6,000 to $7,000, simply because the FUTA base wage has been adjusted that way, and we think it would be easier to promote. And from our survey of who benefited from the program most, it was those people hired and employers paying wages that would result in a greater reward for those employers if that base was increased.

Last, for the summer group only, there is an administrative problem with the facts that the forms produced, the vouchers, are by law—and this is a change that would be needed in the IRS Code. The law sets a 45-day limit on those forms. While we basically have had no problem with that, we think for summer youth, especially, a longer time period would be helpful administratively.

Senator HEINZ. That is so noted. And Mr. Lorenz, we will put your entire statement in the record.

Mr. LORENZ. Thank you.

[Mr. Lorenz' prepared statement follows:]

THE TARGETED JOBS TAX CREDIT IN MARYLAND: AN EVALUATION

By Edward C. Lorenz, Ph. D.
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Prepared for presentation at the U. S. Senate, Finance Committee Hearings on the Targeted Jobs Tax Credit, March 2, 1984.

THE TARGETED JOBS TAX CREDIT
IN MARYLAND: AN EVALUATION

A. Purpose and Scope of Evaluation:

This paper focuses upon the actual useage of the Targeted Jobs Tax Credit (TJTC) in Maryland. It is based primarily upon a longitudinal study of program participants conducted by the state TJTC office. By comparing the earnings and labor force participation of a random sample of program participants with the experiences of a control group, the impact of program participation upon the individual worker can be measured. Extrapolating from the longitudinal study, the general economic impact of the program then can be estimated.

The paper first examines three topics: program growth, particularly the relationship of vouchering increases to certification rates; the impact of program participation upon the sample; and the costs, savings, and other results which the government realizes from the program. The examination of the first topic is based upon precise data on all program participants. The second, of course, is based upon the random sample. The third is more speculative but is closely modeled on previous research on comparable populations. The paper concludes with some suggested improvements in the vouchering process.

This paper was originally prepared for the Maryland Department of Fiscal Services, in December, 1982. The Department of Fiscal Services is the budget office of the Maryland General Assembly. The state established a supplemental credit to TJTC available when TJTC eligibles are hired in state Enterprise Zones. The paper has been updated, to include 1983 and 1984 data, and condensed for presentation to the Finance Committee. The conclusions and basic findings have not been changed.

B. Program Growth:

The table below shows the annual (federal fiscal year) vouchering and certification statistics since the start of the program:

TABLE 1

YEAR	VOUCHERS ISSUES	CERTIFICATIONS
1979	1497	696
1980	6190	2878
1981	6558	2948
1982	15025	5196
1983	30447	10416
1st Qtr. '84	8073	2704

NOTE: These figures do not include cooperative education students, who are not vouchered. Certifications of cooperative education students were: 1979, 144; 1980, 3,743; 1981, 4,270; 1982, 452; 1983, 605. The great change in numbers certified from 1981 to 1982, reflects the restriction of this group to only low income youth.

A key date in reviewing program growth is September 30, 1981. The elimination of retroactivity, the addition of the laid-off CETA worker group, and the consolidation of the WIN/Welfare Credit contained in ERTA made direct comparisons of 1982 figures with earlier statistics difficult.

Generally, the following trends may be noted in these figures. Until the beginning of 1981, slow growth occurred. At that time, the first of several staff reductions took place in offices that determined eligibility. Thus in the last six months of FY'81 an average of 463 persons were vouchered each month, compared to 516 in all of FY'80 and 630 in the first six months of FY'81. With further staff reductions in all cooperating agencies, 1982 began with rather stagnant statistics.[1] For various reasons, most importantly the introduction of a new automated eligibility determination process, growth returned in the Winter of 1982 at much greater levels than ever before and has continued without interruption.

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[1] See The Wall Street Journal, Dec. 16, 1981, p. 1, on experience elsewhere.

For the last half of 1982, an average of 1,755 persons were determined eligible each month. This growth is all the more remarkable given the ending of retroactivity.[2] Even when the two new groups, laid-off CETA workers and WIN participants, are subtracted from the totals, the 1982 total was 182% of the 1981 figure. Most of this growth was a result of phenomenal growth in disadvanatged youth vouchering, which increased 250% over 1981.

In 1983 and the first quarter of 1984, this growth continued. An average of 2,537 persons were vouchered each month in 1983, two thirds in the last six months of the year. By 1983 a cyclical growth pattern was evident. During the Summer, vouchering and certification activity increases greatly, declining slightly in the Fall. The following Spring, growth resumes, reaching levels much greater than in the previous year. Thus the monthly vouchering levels have changed from 1,675 in the first six months of 1983 to 3,399 in the Summer of 1983, down to 2,691 in the first three months of FY'84.

The trends in certification statistics are quite similar to those for vouchering. The decline in vouchering in the second half of 1981 and the great growth since then are mirrored in the certification statistics. This fact is more noteworthy than it may appear on its face. With the end of retroactivity and the deepening recession, one expectation was that vouchering would increase, as it did, but certification would fall, as it did not. In 1980, 119 certifications were issued in an average month, 46% of which were retroactive. By 1981, that figure had grown to only 131, with the same rate of retroactivity. With no retroactivity, an average of 331 persons were certified in each of the last six months in 1982. In the third quarter of 1983, including the peak Summer hiring period, 1300 persons were certified each month.

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[2] On the abuse of retroactivity see: "Repeal the Jobs Tax Credit," The Washington Post, April 23, 1981; Letter from Charles B. Rangel, "In Defense of the Targeted Jobs Tax Credit," in The Washington Post, May 9, 1981; Jane Carmichael, "The Bounty Hunters," Forbes (July 20, 1981); on Maryland and national retroactive statistics see: "Retroactive Certifications," U. S. Department of Labor, U. S. Employment Service, Office of Program Review, July 7, 1981, in this listing Maryland ranked eighth of all states and third among large industrial/urban states, after Michigan and Missouri, in the lowest rate of retroactivity.

While a great growth in certifications is to be expected, considering the great increase in vouchering, the improvement in the ratio of vouchered persons that were certified is significant. This improvement is not evident from the vouchering and certification totals listed in Table 1. Those totals before 1982 include retroactive vouchers, which in every case result in certification. If such vouchers and the corresponding certifications are eliminated, the figures from earlier years can be compared with those for the last three years. In 1981, when only 5195 vouchers were produced before job seekers secured employment, 31% of the vouchered individuals found employment, under TJTC. In 1983, with over 30,000 persons being vouchered, the certification rate had increased to 34%. If the WIN/Welfare category is removed, a group with an especially low rate of certification, and one not present in 1981, the 1983 rate is 38%. The important conclusion to be drawn from this improvement is that the labor market for vouchered workers has been positively affected by great increases in vouchering. Of course, the figures above only show that the vouchered worker's chance of securing a job improved with greater vouchering. That fact does not necessarily mean the worker's plight has been improved. The next section focuses upon the improvement of earnings levels as a result of being hired under TJTC. To learn if workers hired under the credit get any benefits other than a job requires tracking the workers longitudinally from before employment through a considerable time after employment began.

C. Impact of Program Participation:

To assess the impact of participation in TJTC, a significant sample of persons certified under the program was randomly selected and tracked over a two year period, one year before and after employment. The income and work experience of that sample was then compared to the experience of a similar sample of eligible persons not certified for the program. Specifically, the sample was selected in the following manner.

A significant number of persons were selected randomly from each major targeted group (SSI recipients, CETA workers, and Cooperative Education students were not used;. 'included in the sample were persons from the former WIN/Welfare category, to provide a guide to the success rates of that category). The sample included 754 persons. Approximately half were certified during the period January 1, 1981-June 30, 1981. The other half were persons determined eligible for the program during that time period, but not certified. The only screening done in selecting the samples was to eliminate retroactively certified persons (since that type certification is no longer possible) and to restrict the maximum sample drawn by targeted group, race, sex, and urban/rural residential status so that the sample would reasonably reflect the major groups participating in the program. The selection of the control group was limited only in that it was to match those certified in these characteristics. Once the sample was selected, wage records from the unemployment insurance wage record files were screened for the period from the end of 1979 to the middle of 1982 to learn how much income each person had.

The criteria selected to measure the impact of program participation was the income in the year before and after placement, for those certified, or eligibility determination, for those never certified. Results were classified in three broad categories. Low income was considered to be actual yearly income below $6,000. Moderate income was between $6,000 and $7,500; and high income was any annual figure above $7,500. Only reportable wages were counted in making classifications. This restriction seems logical, since the degree to which program participation made each worker a successful labor force participant is being measured.

In order to minimize the impact of different personal characteristics upon the results, results were filed separately by targeted group, race, and sex. Within the disadvantaged youth sample, the sample was balanced to include like number of urban and non-urban youth in both the certified group and the control group. Since the disadvantaged youth group equals about half of all persons in the program, they made-up nearly half the sample. The number of persons selected from the other groups depended on the number of non-retroactive eligibles available in the first half of 1981 and the need for a balanced, sufficiently large sample. Because of both a lack of proper information and the unique nature of their residency, work releasees were treated as a separate group. For that group and for the WIN/Welfare sample, there is no control group.

The tables on the following page indicate the results of the survey. Generally, it is evident that most persons in the sample had low income in the year following certification or eligibility determination. Given the age and background of most of the eligibles, perhaps these figures are not surprising. From an administrative perspective, they indicate the eligibles were genuinely from the intended populations. A more

ANNUAL INCOME YEAR FOLLOWING CERTIFICATION (SAMPLE)

	A-1	A-2	A-3	A-4	B-1	B-2	B-3	B-4	C-1	C-2	C-3	C-4	D-1	D-2	D-3	D-4	G-1	G-2	G-3	G-4	** P-1	** P-2	** W-3	** W-4	TOTAL
# above $7,500/yr.	9	2	10	4	3		1				5		7	1		1	1		1		7		3	2	57
# $7,500-$6,000/ yr.	5	2	10	3	1		4		2		6		3	1	2				2		1	1	4	5	52
# under $6,000/yr.	25	3	58	37	5		13		5		29	1	12	12	7	1	5	4	1	6	12	20	10	21	287
TOTAL	39	7	78	44	9		18		7		40	1	22	14	9	2	6	4	4	6	20	21	17	28	396

ANNUAL INCOME YEAR FOLLOWING ELIGIBILITY (CONTROL GROUP)

	A-1	A-2	A-3	A-4	B-1	B-2	B-3	B-4	C-1	C-2	C-3	C-4	D-1	D-2	D-2	D-4	G-1	G-2	G-3	G-4	TOTAL*
# above $7,500/yr.	5	1	9	1	2		1		1		2		4					1		3	30
# $7,500-$6,000/yr.	4	1	5	5			1		1		2		1								20
# under $6,000/yr.	28	8	64	37	6		16		5		36	1	25	16	6	2	6	3	5	2	266
TOTAL	37	10	78	43	8		18		7		40	1	30	16	6	2	6	4	5	5	316

CODES: A-Disadvantaged youth C-Ex-felon G-Gen. Asst. Recipient W-WIN/AFDC Recipient 1- White/Male 3-Black/Male
B-Disadvantaged Vietnam vet. D-Voc. Rehab. Client P-Prison Work Release 2- White/Female 4-Black/Female

*Note od totals: Totals reported are slightly different for pre- and post-1981 periods due to unemployment wage record system failure to generate reports on every individual initially selected for the sample and control group. In order to avoid bias in reconciling numbers, small differences in totals and in specific group/sex/race categories are accepted.

** There was no comparable control group for the pre-release and WIN/AFDC for both logical and procedural reasons. Since all pre-releasees finding private sector employment were certified, there was no population to select a control group. The nature of WIN records did not allow for identification of an acceptable control group.

significant fact, from a program evaluation standpoint, is the fairly small, yet consistent, difference in the rate with which certified and non-certified persons achieved moderate and high income levels. Some of the key differences are reviewed in detail below; however, the overall difference, 26% for those certified and 16% for those not, indicates the general trend.

Specifically, several groups did much better when certified than when not. While only 10% of the non-certified vocational rehabilitation clients achieved moderate or high incomes, 32% of the certified did so. Perhaps more importantly, blacks and women achieved moderate and high income in the vocational rehabilitation category, when certified, but not when placed without the tax credit. Among ex-felons, black male felons did much better when certified than when not, while white males actually did worse. Other than the white male offenders, the only other groups not to benefit from certification were black, female disadvantaged youth and female general assistance recipients. Although lacking a control group with which to compare them, work releasees did not benefit greatly from participation in TJTC, while WIN/Welfare participants had success rates comparable to the more successful targeted groups.

While there are low rates of achieving income over $6,000 in the year following certification or eligibility determination, the figures for the year before (January, 1980 - December, 1980) are much lower. As the table on the following page shows, few of the participants in the sample had incomes over $6,000. Apparently because of the youthfulness of the sample (or because ex-felons had just been released from prison), 201 of the 703 persons whose 1980 incomes were checked, had no reported income, compared to 62 of 712 whose post-certification/eligibility determination incomes were checked.

ANNUAL INCOME YEAR PRECEEDING CERTIFICATION (SAMPLE)

	A-1	A-2	A-3	A-4	B-1	B-2	B-3	B-4	C-1	C-2	C-3	C-4	D-1	D-2	D-3	D-4	G-1	G-2	G-3	G-4	** P-1	** P-2	** W-3	** W-4	TOTAL
# above $7,500/yr.	2		1										2										1		6
# $7,500-$6,000/ yr.	2		1	1			1				1		1											1	8
# under $6,000/yr.	35	7	76	43	9		17		7		39	1	19	14	9	2	6	4	4	6	20	21	16	27	382
TOTAL	39	7	78	44	9		18		7		40	1	22	14	9	2	6	4	4	6	20	21	17	28	396

ANNUAL INCOME YEAR PRECEEDING ELIGIBILITY (CONTROL GROUP)

	A-1	A-2	A-3	A-4	B-1	B-2	B-3	B-4	C-1	C-2	C-3	C-4	D-1	D-2	D-2	D-4	G-1	G-2	G-3	G-4	TOTAL*
# above $7,500/yr.	4			1			3				2		3								13
# $7,500-$6,000/yr.	1		3	1	1				2		1				1				1		11
# under $6,000/yr.	32	9	71	41	7		14		5		37	1	27	16	5	2	6	4	4	4	285
TOTAL	37	9	74	43	8		17		7		40	1	30	16	6	2	6	4	5	4	309

CODES: A-Disadvantaged youth
B-Disadvantaged Vietnam vet.
C-Ex-felon
D-Voc. Rehab. Client
G-Gen. Asst. Recipient
P-Prison Work Release
W-WIN/AFDC Recipient
1- White/Male
2- White/Female
3-Black/Male
4-Black/Female

*Note on totals: Totals reported are slightly different for pre- and post-1981 periods due to unemployment wage record system failure to generate reports on every individual initially selected for the sample and control group. In order to avoid bias in reconciling numbers, small differences in totals and in specific group/sex/race categories are accepted.

** There was no comparable control group for the pre-release and WIN/AFDC for both logical and procedural reasons. Since all pre-releasees finding private sector employment were certified, there was no population to select a control group. The nature of WIN records did not allow for identification of an acceptable control group.

Once one overcomes the surprise at the extremely low rates at which persons in the sample earned merely $6,000 per year, an analysis of the differences between the groups, particularly in the post-certification/eligibility determination period, can reveal subtle, but important, results of program participation. Most obvious is the fact that the rate certified workers achieved income above $6,000 was 71.9 % greater than the rate for non-certified. This statement is not intended to mask the fact that the rate at which certified workers achieved such income was discouragingly low. An evaluation of program "impact," using that word intentionally, in place of "success," must be viewed in perspective. The intractable nature of the unemployment problem facing low income labor force entrants and the handicapped make "success rates" at these low levels the expected result.

The following section will attempt to estimate the net costs and savings from the program. Tracking the post-certification/eligibility determination experiences of the certified and the control group, it will focus on the cost in tax credits authorized and the savings resulting from increased earnings and decreased transfer payment use.

D. Costs and Savings:

In assessing the costs and savings of the tax credit in Maryland, the administrative costs of the program, and the credits earned by employers of the certified sample, have been totalled. Subtracted from this total have been the taxes paid on the increased earnings of the sample, and the reduced transfer payment use by the sample. The result is an approximation of the net costs of the program to the United States Treasury.

The estimation of the costs of the program can be made with much greater certainty than the estimation of the savings. For example, the administrative cost of the program, in fiscal 1981, is known precisely, $139,835. The figure for 1982 will be only slightly higher. The administrative cost, as the credits authorized, are borne entirely by the federal government.

While it is too early to get final tax records from any of the last several years, by calculating the earnings of the certified sample, the credits earned by employers can be estimated with great certainty. Combining that figure with the administrative cost of the program, the total cost for the program in Maryland can be calculated. Of more importance, in evaluating the program, the total cost can be used to compute the cost per placement.

The income records used to compute the credits earned included 396 persons' earnings, 287 of whom earned less than $6,000 in the year following being hired, 52 of whom earned between $6,000 and $7,500, and 57 of whom earned over $7,500. The 287 persons with lower incomes earned $396,018 at the employer for which they were certified. Those employers could claim credits of $198,009, an average of $689.92 per worker. This figure makes clear that many placements under the program do not result in the maximum credit ($3,000 in the first year and $1,500 in the second) being earned. The second year credits earned on anyone in the sample are not known, because the second year has not yet been completed. However, since virtually all of these workers left employment with the certified employer long ago, it is doubtful that more than a handful would be employed at all in the second year.

In contrast to the low income group, which included 72% of the sample, the high and middle income groups earned much more in total income, despite their small number. The middle income group, of 52 persons, or 13% of the sample, earned $246,290. Because of the maximum ceiling ($6,000) on the wages upon which the credit could be earned, the actual credits were not half this figure but $113,855, an average of $2,189.51 per worker. The average is less than $3,000 because some workers left the certified employer and continued employment with another business. For the high income group, the total earnings of the 57 workers were $412,828 and the total credits, $140,345, an average of $2,462.19. The total credits authorized for the 396 workers were $452,209.

Extrapolating from these figures, the total credits authorized in 1981 can be estimated. During the fiscal year, 2,948 workers were certified. The total credits would be approximately $3,346,000. Actually, the sample used for this evaluation is not typical of all persons certified in 1981. Excluded from it, in order to make it similar to those being certified in 1984, were retroactively certified persons and cooperative education students. Looking at the much larger group certified in 1983, 10416 persons, in the year following certification, approximately $11,787,159 in credits would result. Obviously, many variables could alter this figure. However, it is probably a good guide to the total.

These figures are not the total tax expenditure resulting from the credit. Because of the add-back provisions of the federal credit, reducing the employer's usual wage deduction by the amount of the credit, the net cost to the tax system is less than the figures above. For example, a $3,000 credit authorized at an employer in the 46% bracket, costs the federal government only $1,620.00. Without access to employer tax returns, it is impossible to estimate with precision the impact upon cost figures of the add-back provision; however, it would be reasonable to assume at least 20% of the authorized credits are off-set by this provision. The total cost in Maryland of the program, in 1982, therefore, would be reduced to under $4,500,000.00. In 1981, the estimated cost would have been under $2,700,000.00.

Limiting this cost analysis to the certified sample, where specific numbers are known, costs and savings per worker can be computed. To learn net earnings attributable to the tax credit, the difference in total earnings between the certified sample and the control group must be determined. With these numbers known, net federal, state, and local tax increases resulting from the credit and net federal and state transfer payment savings can be calculated. It is even possible to estimate the amount of extra disposable income generated in the state because of the credit.[3]

The first item to be computed is net earnings resulting from the credit. This figure was developed by totaling the incomes, from all sources, of the certified sample and comparing it to the total of the control group. Since the two groups differed slightly in total numbers, the average incomes were computed, compared, and the net difference used to calculate the net earnings increase. The average income for the certified goup was $3,932.00. For the control group, $3,044,00 a net difference of $888.00 multiplying this figure by the total number of persons in the certified sample, 396, the total net income increase for the sample was $351,648, in the year following certification. From these income figures, estimates of net taxes paid, transfer payment savings, and net cost per person certified can be developed.

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[3] Robert Jerrett, III, and Thomas A. Barocci, Public Works, Government spending, and the Job Creation: The Job Opportunities Program (New York: Praeger Publishers, 1979), provided the model followed here to compute cost and savings. Wherever possible figures developed from the longitudinal sample were used as a guide. In a few cases, where data was not available from the TJTC sample, Jerrett and Barooci's estimates were used.

Taxes can be estimated using our knowledge of family size, income, and tax rates, to determine income taxes, and using Bureau of Labor Statistics, Consumer Expenditure Survey data, to estimate sales and excise taxes. FICA and Unemployment Insurance (UI) taxes can be estimated from average tax rates. Since most persons in the sample were in families of one, and where more members exist it can be assumed the income of the additional family members may off-set any savings from increased deductions, the estimated income taxes can be computed from the tax tables fairly easily. The net federal, state, and local income taxes paid by the certified workers was calculated by subtracting the taxes estimated to have been paid by the control group from the taxes estimated to have been paid by those certified. Offsetting any overestimate due to the single tax payer assumption, should be taxes paid on income not in the wage record system.

Sales, gasoline, and tobacoo excise taxes are estimated from the Consumer Expenditure Survey, using applicable state and federal tax rates. The table below shows the tax increases attributed to the improved earnings of the sample.

NET TAX REVENUE INCREASES

Certified Sample

Income taxes		
Federal	$15,000	
State	5,400	
Local	2,700	
Total Income Taxes		$23,100
Sales (5%)		$11,621.96
Gasoline		
Federal	$1,696.35	
State	2,278.68	
Total Gasoline Taxes		$3,975.02
Tobacco Excise		
Federal	$2,855.38	
State	815.82	
Total Tobacco Excise		$3,671.20
FUTA Total (½ employee, ½ employer)		$46,769.18
Unemployment Insurance		
Federal	$1,054.94	
State	$6,681.31	
Total Unemployment Insurance		$7,736.25
TOTAL TAXES		$96,873.61

For example, it is estimated that 66.1% of disposable income is subject to sales tax. At the low incomes dealt with in this study, all additional income is disposable. Therefore, Maryland sales tax revenue increases attributable to the tax credit should be equal to N x .661 x .05 where N is the net earnings increase, $351,648. The result of this computation is $11,621.96. For gasoline taxes, the net state savings were $2,278.68 and the net federal savings, $1,696.35. For tobacco excise, the state figure was $815.82, the federal, $2,855.38. Using the applicable FICA rate, the employee contribution should have been $23,384.59, with employers contributing a like figure. For UI taxes, the state should have received an additional $6,681.31; the federal fund, $1,054.94.

The total transfer payment savings, which are listed on the table on the following page, with the percentage of net earnings increase used to calculate the savings under each category of payments indicated. For example, for each dollar of additional earnings there should be a savings 0.2¢ in public housing subsidy. Total transfer payment savings on the $351,648 in additional income should be $56,966.97. To check these estimates, the actual claims of unemployment insurance of the control group and the sample were compared. The certified sample had filed 19% less claims. Of course, both the tax revenue increases and transfer payment decreases computed above are totals of federal, state, and local savings.

Without a state credit comparable to TJTC, Maryland undoubtedly realizes a net gain from the program. Using the estimates above, Maryland should have realized $26,797.77 in increased taxes and $36,923.03 in reduced transfers. These figures total $63,720.80 or an average of $160.91 per person certified. Multiplying $160.91 by the number of persons certified in 1981, the total state savings from the program were about $500,000.

NET TRANSFER PAYMENT DECREASES

Certified Sample

Payment	Decrease	Rate
Unemployment Insurance	$28,131.83	8.0%
Social Security (incl. SSI)	2,461.54	.7
AFDC federal share	4,571.42	1.3
State Welfare (GPA, AFDC, SSI)	5,626.37	1.6
Food Stamp	8,439.55	2.4
Medicaid Federal Share	3,868.13	1.1
Medicaid State	3,164.83	.9
Public Housing	703.30	.2
Total Savings	$56,966.97	16.2%

While the state realizes only savings under the credit, the federal government experiences savings and lost tax revenues. Reviewing the figures relative to the certified sample, $452,209 in credits were authorized for the 396 persons hired. Totaling estimated tax and transfer savings, this figure can be reduced by $153,840.58. In addition, subtracting the estimated 25% credit reduction, resulting from the add-back feature of TJTC, gives a net cost of $185,316.17. Dividing that amount by 396, gives an average cost per certified worker of $467.97. There are several factors which must be considered before accepting the $467.97 figure as final. First, it would be increased by any second year credits. Based upon the known first year turn-over, this second year adjustment should be slight. The average cost would be reduced by welfare savings greater than those estimated above. Since the sample used to develop the welfare savings estimate included a significantly smaller percentage of welfare recipients than under TJTC as a whole (9% compared to actual 17%), it is probable that welfare savings are somewhat greater than this study estimates.

E. Vouchering Improvements:

Generally, the results of this evaluation reflect positively on the tax credit as an effective wage subsidy. At a minimum this evaluation shows the credit did help those vouchered for the program. While it is a policy decision, whether the benefits are worth the costs, it would appear the $467.97 cost per certification is a bargin, especially since the extra disposable income put into the economy has not been fully measured here as a factor to balance the small net cost. There is one important factor in measuring the impact of the credit which has not been evaluated thus far in this study which is essential before future benefits and costs can be evaluated. That is, to what extent can vouchering be expanded.

Two studies of TJTC done for the Senate Finance Committee hearings on the program in 1981, raised fundamental questions relative to the eligibility determination process; which as yet have not been fully answered. The study by John Bishop and that of GAO found only a small part of the eligible population was vouchered.[4] We know in Maryland, which has one of the better vouchering records, that only about 20% of eligibles in the labor market take advantage of the program. Considering that many among this twenty percent do not find a job while their voucher is valid or loose the job they find shortly after hire, even it overestimates the impact of the program on the structurally unemployed. This evaluation would suggest that a great increase in vouchering could be attempted without saturating the labor market with eligibles. In fact mass vouchering that saturates the labor market with eligibles is an ideal.

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[4] GAO, "Comments on Employment Tax Credits," U. S. Congress, Senate, Finance Committee, June, 1981, 97th Congress, 1st Session, 1981; John Bishop, "An Examination of U. S. Experience with Employment Tax Credits," U. S. Congress, Senate Finance Committee, Subcommittee on Economic Growth, Employment, and Revenue Sharing, Hearing on TJTC, April 3, 1981, 97th Congress, 1st Session, 1981, p. 4. See Appendix for samples of a Voucher and related materials.

Great increases in eligibles in the last year who have been vouchered, especially youth, have begun to convert the credit from an isolated incentive for hiring a few lucky or especially interested job seekers into a generalized incentive leading some employers to consciously alter human resource plans. If even larger numbers of eligibles were available, so that employers could count upon finding them when openings occurred, some employers might go further in altering plans to automate certain functions which could be better performed by entry level workers bearing a subsidy. One business, in Maryland, which is very conscious of the summer program under the credit, has begun offering summer discounts to its customers so that more work can be found in the period when it can hire many eligible youth. Such actions will only become widespread and take on macro-economic meaning if mass vouchering occurs.

There are six legislative steps that could be taken to facilitate mass vouchering. All are minor and are technical rather than substantive. They are:

1. Recognition of Vouchering in IRS Code: Currently, the tax law refers only to certification, among "forms" used in the program. Yet, the voucher is the key form under TJTC, as far as job seekers are concerned. If section 261 (c) (1) (15) (A) (i) were amended to remove the word "certification," inserting in lieu thereof "voucher," legal recognition would be given to the voucher. Currently, a voucher produced before employment begins is treated as no more than a letter of request for certification. If an employer hires a youth on a voucher but fails to place the voucher in the mail before the close of business, the credit is denied. Yet, an employer who never hires workers with vouchers but rather who hires using pre-TJTC methods of screening can get the credit on any eligible worker he accidentally hires simply by following a policy of sending the state TJTC office a form letter requesting the tax credit everytime a worker is put on the payroll. This has become a classic example of form triumphing over substance. In fact, we would suggest that credits be limited to only those situations where vouchered workers are hired, with perhaps a five day grace period, after hire, when the voucher could be secured.

2. Amending Income Guidelines: Since the Bureau of Labor Statistics no longer produces the 70% Lower Living Standard Income guidelines required to be used as the income standard for economically disadvantaged targeted groups, an alternative income guideline is needed. Because many of the staff responsible for vouchering also make eligibility determinations for the Job Training Partnership Act (JTPA) training programs, the greatest possible correlation of TJTC standards and those of Title II of JTPA would help. For example, in Maryland we have coordinated eligibility for the state enterprise zone tax credit with TJTC, allowing for the use of common forms and procedures.

3. Stability in Authorization and Regulation: If the program is to be extended, the longer the extension with the fewest substantive changes the better. Since 1979, the program has been plagued by short extensions, leading many employers and agency staff to believe the program has expired at any given date. While there has been recent movement toward developing final regulations for the program, all possible pressure to assure final IRS and Department of Labor regulations and policy handbooks are promptly issued would be helpful.

4. Financial Incentives for Vouchering and Certification: While the administrative funds for the program have been more than adequate for central office use, we would favor the suggestion of John Bishop[5] that bounties be provided to reward agencies which voucher persons. Additional bounties would be available whenever a voucher led to a certification. Even an amount as little as ten dollars per voucher and fifteen additional dollars per certification would provide a significant incentive to offices serving many eligibles, such as inner city Job Service offices. Such a system would not require additional funding of vouchering agencies but could be implemented as one part of the general allocation process.

5. Adjusting Wage Base for Credit: Since 1978, the base wages upon which the credit is computed have remained constant at the first $6,000. An adjustment upward to $7,000 would be beneficial. The net cost of such a change would be minimal, based upon our research. Most certified workers do not remain with the initial employer long enough for $6,000 or $7,000 to be paid. However, the most successful hires under the program are at businesses paying between $4 and $5/hour. Such businesses would find a greater incentive to retain eligible workers if this minor adjustment were made. The net cost per certification would beno more than $200 per worker. Such a change would especially promote hiring by manufacturing and other businesses with higher wage rates. Since the recent recession, use of the credit by manufacturers has fallen greatly. Workers in the machine trades constituted 7% of all persons certified in 1979 but only 1% in 1982.

6. Validity Period Extension: The law limits the validity period of an eligibility determination (hence of a voucher) to 45 days. While in

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[5] John Bishop, "The Design of Employment Subsidies -- Lessons of the U. S. Experience," unpubl. paper presented at the 36th Congress on Public Finanace and Public Employment, Jerusalem, August 25-29, 1980, p. 16.

> general this restriction is no problem, such as when the eligibility of a Vietnam era veteran is being determined, it does create a paperwork problem when youth are being vouchered for summer jobs. With forms good for only 45 days and most hiring of youth for the summer taking place within the last two weeks of June, staff of vouchering agencies must produce all vouchers within a few weeks for all summer jobs. For example, last summer, in Maryland nearly 10,000 youth were vouchered for the summer. It is a major problem logistically to process forms on that many persons within a month. A ninety day validity period would allow summer vouchering to begin no later than April 1.

Since this study implies the credit has a significant positive impact upon participants and only a negligable impact upon the federal budget, the expansion of vouchering appears to us to be wise public policy. The six technical changes mentioned above would greatly facilitate this expansion. Attached to this evaluation is a brief review of the vouchering process, from the perspective of the job seeker, with samples of a voucher and vouchering aids which are made available to the job seeker to help in proper use of the voucher. A review of the Appendix might make clear why facilitation of pre-employment vouchering is so vital to the proper growth of the program.

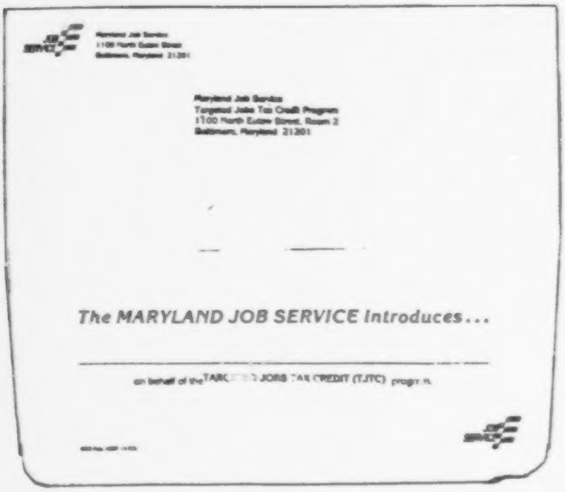
APPENDIX

For the information of the Committee, attached to this report are reduced samples of the tax credit voucher and the vouchering aids used in Maryland. When the voucher is given to a job seeker, it is placed in the voucher envelope. The job seeker is given a sheet of twenty TJTC "Stickers." The voucher envelope shown here is used to help youth find employment. A slightly different version is given to persons not in the youth groups. The envelope serves as a return envelope when an employer hires a qualified job seeker.

The stickers are given to the job seeker for those situations where the employer is not interviewing. If the job seeker only is given an application to complete, he is instructed to peel a sticker off the sheet and place it on the application. When the employer screens applications at a later date, the sticker, which is "red, white, and blue" in color, stands out on the application, hopefully influencing the employer's hiring decision.

Each of these items is designed to help the vouchered applicant sell himself to an employer. Together, they make the voucher the key item in the program, more important than the certification, which merely confirms for an employer that the credit should be claimed.

SAMPLE VOUCHER ENVELOPE AND TJTC "STICKERS"



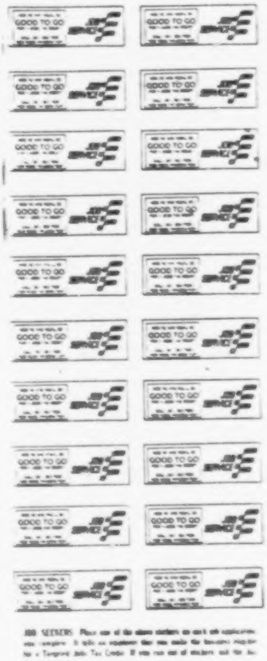
Maryland Job Service
1100 North Eutaw Street
Baltimore, Maryland 21201

Maryland Job Service
Targeted Jobs Tax Credit Program
1100 North Eutaw Street, Room 2
Baltimore, Maryland 21201

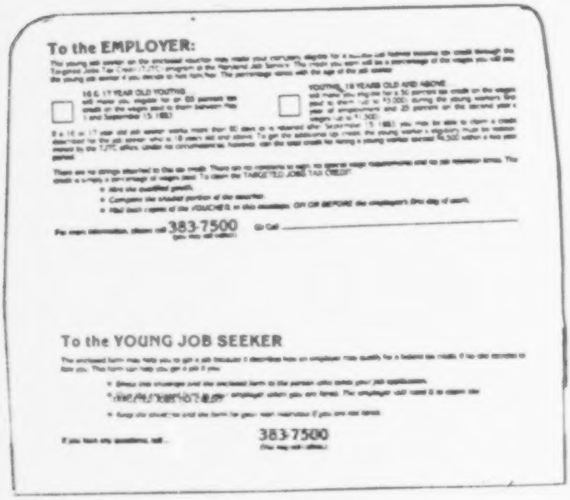
The MARYLAND JOB SERVICE Introduces...

on behalf of the TARGETED JOBS TAX CREDIT (TJTC) program.

OUTSIDE OF ENVELOPE
(# 9 size)



STICKER SHEET
(reduced from 4¼ x 11")



To the EMPLOYER:

☐ 16 & 17 YEAR OLD YOUTHS

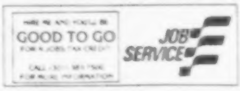
☐ YOUTHS, 18 YEARS OLD AND ABOVE

383-7500

To the YOUNG JOB SEEKER

383-7500

INSIDE OF ENVELOPE



GOOD TO GO

JOB SERVICE

STICKER FULL SIZE,
(Colors; red, blue, white)

STATE OF MARYLAND
DEPARTMENT OF HUMAN RESOURCES
EMPLOYMENT SECURITY ADMINISTRATION
[illegible]

Targeted Jobs Tax Credit Voucher

CONTROL NUMBER 0 90901
1 6

PM: / /
(mo./day/yr.)

PART I: INTRODUCTION

1. Social Security No. 7 15	TC 2 16	CC 8 17	2. NAME (LAST, FIRST, MIDDLE)

3. Address (Number, Street, City, State, Zip)

APPLICANT DECLARATION:
I hereby certify that the information I have supplied in completing this form is true and correct to the best of my knowledge. I agree that any information I have supplied may be subject to verification.

SIGNATURE OF APPLICANT	DATE	COUNTER SIGNATURE (Parent or Guardian)

PART II: TO THE EMPLOYER

The applicant named above may be eligible for certification under the Targeted Jobs Tax Credit program, as authorized under the IRS Code 44-B. ☐ If this block is checked, the applicant is eligible, also, for the Maryland Enterprise Zone Tax Credit for Economically Disadvantaged Employees. Certification is necessary for you to claim either credit. If the applicant is not hired before the date shown below:

DATE: 18 21 22

their eligibility must be reviewed by the office (see Part III) which originated this form. If you hire this applicant, you can request the certification you need to claim your tax credit by:

1. Completing the Employer Declaration below (SHADED SECTIONS ONLY), and
2. Mailing these forms **ON or BEFORE THE EMPLOYEE'S FIRST DAY OF WORK** to:

TARGETED JOBS TAX CREDIT, ROOM 205
1100 NORTH EUTAW STREET
BALTIMORE, MARYLAND 21201

3. Your certification will be returned to you.

State Certification ☐
If the block above is checked, the applicant is eligible only for the Maryland Enterprise Zone Tax Credit, not the federal Targeted Jobs Tax Credit.

EMPLOYER DECLARATION:
I hereby declare that the above-named person was or will be employed by:

4. Name and Address of Firm 23 NAME OF FIRM 38 39 STREET ADDRESS 52 CITY STATE 53 ZIP 57	5. Phone No.	6. IRS Identification No.
	7. Representative's Name and Title 58 71	
8. Job Title/Occupation of Employee 72	9. Starting Wage $ /hr. 73	10. Starting Date of Employment 74 (mo./day/yr.) 79

I hereby certify that the above information is correct and true to the best of my knowledge. This form is for the purpose of obtaining the benefits of the Targeted Jobs Tax Credit under section 44-B of the Internal Revenue Code and/or the Maryland Enterprise Zone Tax Credit. TO RECEIVE THE ENTERPRISE ZONE CREDIT, YOUR BUSINESS MUST BE CERTIFIED BY THE LOCAL ZONE ADMINISTRATOR. I understand that such credit(s) will cease immediately upon notification of subsequent invalidation of this form and/or certification.

Signature of Employer	Date Signed	Date of Enterprise Zone Certification (Only required if Maryland Credit being claimed.)

PART III THIS ELIGIBILITY DETERMINATION WAS ORIGINATED BY:

PARTICIPATING AGENCY'S NAME AND ADDRESS	NAME OF AUTHORIZED OFFICIAL (Print)	TYPE DETERMINATION 1 Original 2 Revalidation 3 Prior request 80
PHONE NO.	SIGNATURE OF AUTHORIZED OFFICIAL	TYPE CREDIT 1. TJTC only 2. TJTC & EZDC 3. EZDC only

NOTE: Falsification of data on this form is a federal crime in violation of 18 USC 1001. Falsification of work or concealment of information is punishable by a fine of not more than $10,000 or imprisonment of not more than 5 years.

DHR/ESA 400 EZ (6/83)

AGENCY STAFF: After completing non-shaded portion of DHR/ESA 400EZ, tear-off top two forms and give them to the job seeker to take to the employer. If the job seeker is only eligible for the Enterprise Zone Tax Credit (and NOT TJTC), DO NOT give the second page - the Certification - to the job seeker. Tear it off and discard it. Complete remainder of bottom two copies of form 400 and mail third copy to TJTC.

EMPLOYER: Complete shaded portion and return both copies (single copy if eligible for Maryland Enterprise Zone Credit only) to TJTC, 1100 N. Eutaw St., Baltimore, Maryland 21201.

Senator HEINZ. Gentlemen, let me ask a couple of questions.

Each of you, I believe, would be willing to go on record as saying the program is a success even if it can be made better. Is that right, Dr. Bishop?

Dr. BISHOP. Yes, I think so.

Senator HEINZ. Mr. Lorenz.

Mr. LORENZ. Yes.

Senator HEINZ. Mr. Robison.

Mr. ROBISON. Yes.

Senator HEINZ. All right.

Now, one of the things that was mentioned regarding whether or not the Treasury agreed that there was kind of new net job creation and therefore additional revenues created by the employment of people, if you only ask that question—Does this legislation create new jobs?—you kind of miss the point. The real question is: Does this legislation lead to higher levels of employment in the work force than we would have without the program? And there is a big difference. It is so easy to confuse the two.

Do any of the three of you have any evidence as to whether this brings about a higher level of employment of the work force?

Mr. ROBISON. The job service is increasingly having connections to employers, particularly large employers, that it didn't have before. I can't speak about all types of applicants, but certainly for the applicants we are talking about, in many job service offices almost half the placements are TJTC related.

To the extent that companies get into the program, and it takes usually 2 years or more, it changes their perceptions of this large group of applicants. And as the companies pass the savings down the line to unit managers and store managers, it is natural for them to take a chance on these people where they would not before. They will not take that chance without the financial incentive. It is crucial. We need it at 50 percent.

Senator HEINZ. I am going to ask you about that in a minute, but one of the things that we tend to do when we look at unemployment rates is to assume that when there are 8 million people unemployed, that there are no jobs at all for those 8 million people. Clearly, there are jobs but there is a lot of mismatching between people and jobs, as evidenced by the help wanted columns. There may not be enough listings in the help wanted columns, but there are always listings.

I just wanted to make it clear on the record that it is possible to have (a) too few jobs; but (b) it is also possible to have a higher level of employment even with too few jobs, by virtue of programs such as this than if you don't have it. Is there any disagreement with that?

Dr. BISHOP. In theoretical analysis of the general equilibrium effects of programs like this you can show because of the minimum wage or the existence of transfer programs, you can show that generating more jobs at the bottom of the skill distribution for the most disadvantaged workers can increase total employment. This is because wage pressure, the Phillips curve, is not responsive to the unemployment rates of these categories of workers but is responsive to the unemployment rates of what is called "the main workers," typically measured as the 25-to-55 unemployment rate for males, white males.

So it is very possible for a program like this to have net total job creation effects.

Senator HEINZ. I would prefer you to say "net employment creation" rather than "job creation."

Dr. BISHOP. All right.

Senator HEINZ. You may be right, but I think it is an easier sell to say "employment realization" than "job creation."

Dr. BISHOP. To increase total employment, the TJTC must induce firms to change their behavior in the first round. It has to cause firms to hire less skilled people, more disadvantaged people, than they would have otherwise. It has to cause some firms to expand their total employment. And it is the proportion of the initial round effects that are of those types that determine the cost effectiveness of the program and, second, how costly it is for the Government in terms of tax expenditure to induce that change.

That is why I suggest lowering the tax cost per person.

Senator HEINZ. I want to ask you about that. Now, we appear to have a little contradiction in the testimony. Mr. Robison says we should leave it at the 50 percent; you are saying reduce it 25 percent but add training costs.

The first question I have for you there is: Would you be in favor of reducing it from 50 percent to 25 percent without adding training costs, or not?

Dr. BISHOP. It would depend upon where I was in terms of all the other trade-offs Senator Dole was——

Senator HEINZ. Senator Dole tries that on everybody.

Dr. BISHOP. It is a 99-percent consensus within the economics profession that this deficit is absolutely mind-bogglingly too big, and it is only the crazies that testify differently.

Senator HEINZ. Be careful—a lot of people from the administration come down here and say, "Not to worry." [Laughter.]

Dr. BISHOP. So, it is very high priority to reduce the deficit.

Senator HEINZ. Lo and behold, the administration supports this program.

I am not going to ignore you, Mr. Lorenz, but I just wanted Mr. Robison to comment on this point.

Mr. ROBISON. I forgot one obvious point: Typically, it is a 27-percent saving on wages to the employer for the certified worker in the first year. That means that there is a lot more money to use to hire more people.

As to the 50 percent, we had a meeting in the White House recently, and six large users of TJTC talked about how they used it and how they passed the savings down to managers. They were all very clear: Their managers would not take the chance and hire preferentially unless this incentive, as it was right now, were there. I don't think they would do it if it was a lot less in value.

Senator HEINZ. You can try it in Alaska, and see how it works.

Just for the record, there is one other question I have got to get on the record. One of you, and I don't know if it was Dr. Bishop or Mr. Robison, mentioned a net cost replacement of $100. Mr. Lorenz mentioned a cost of $470 per certification. Can you reconcile that?

Mr. LORENZ. We had talked.

Mr. **Robison**. Those are two different things.

Senator **Heinz**. I understand. That is exactly why I want them reconciled. Mr. Lorenz, do you want to just try to reconcile that?

Mr. **Lorenz**. Well, I think some of it is the difference in the samples that were studied.

Senator **Heinz**. First of all, before you get to the samples, the $470 per certification—what is the difference between a certification, and a placement?

Mr. **Lorenz**. It is the same.

Senator **Heinz**. All right. I think we are talking about exactly the same thing there.

Mr. **Lorenz**. The fact is, by us comparing it to a control group, I think one thing that happens is, if you compare the success of the people the year after certification to the year before, which is what Dave did, there is an impact of the change in age of the youth here which affects the amount of savings, because any youth in a 2-year period is going to have a better, higher wage rate at the end of the 2 years than at the beginning because they are older. You know, there is a significant change if you are young; whereas if you are older, it isn't. So I think that explains a lot of the difference, because of the methods that we used. Ours were comparing people at the same age range at the same stage of their life, and we saw a larger difference, a larger cost. We still think it is low, but it is a larger cost.

Senator **Heinz**. Very well. Any other comment, gentlemen?

Mr. **Robison**. Senator, the difference on my part is that we took from the prehired data the actual subsidies and therefore savings at the time of hire. We also took the wages and computed the tax payments, including Social Security and UI. So, when we start with the $544 I had for the net tax credit, when you subtract for the Government savings you are under $200 "per cert" or "per placement." When you subtract for the increased taxes, you are under $50. I said under $100 to be very conservative.

Senator **Heinz**. Oh. I think that helps to clarify the difference. Yes, Dr. Bishop?

Dr. **Bishop**. Senator Dole asked for ways to raise revenue. I think this is off the subject of TJTC, but you might propose to him a TIP: A tax-incentive inflation-fighting policy I think would be able to raise $8 to $9 billion.

Senator **Heinz**. If we get into that at this hearing we will exceed our time limits. But I thank you for the idea, Dr. Bishop.

Gentlemen, thank you very much.

Our next panel consists of Richard Sherman, James Bartlett, Lozelle DeLuz, Merrill Cohen, Larry Whitt, and Betty Jones.

Before we begin—I will ask Mr. Sherman to start—I want to say to Mr. Larry Whitt, who is with a small, struggling fast-food operation known as Pizza Hut, which has proud origins in the State of Kansas, that Senator Dole wanted to be here to hear your testimony, but he had to absent himself for some additional responsibilities.

Mr. Whitt, Senator Dole is with you in spirit.

Mr. **Whitt**. Thank you.

Senator **Heinz**. Mr. Sherman.

STATEMENT OF RICHARD SHERMAN, GROUP EXECUTIVE VICE PRESIDENT, HARDEE'S FOOD SYSTEMS, INC., ROCKY MOUNT, NC, ON BEHALF OF THE NATIONAL RESTAURANT ASSOCIATION, WASHINGTON, DC

Mr. SHERMAN. Thank you very much, Senator. It is a pleasure to be before you this afternoon.

I am Richard M. Sherman, and I am group executive vice president of Hardee's Food Systems, Inc. My purpose here today is to appear on behalf of the 10,000 members of the National Restaurant Association, who employ about 8 million people in the United States.

We previously submitted a written statement in support of S. 2185. In addition, I would like to make a few brief comments now.

Hardee's Food Systems and its franchisees employ approximately 70,000 people in 37 States. We have been a participant in TJTC since its inception. We weren't successful in hiring TJTC employees at our company until we first established a specific goal of three qualifying employees per restaurant, and then backed up our goal by paying our restaurant managers and our support field staff bonuses for actively recruiting people among the target categories.

Our industry is currently one of the few where, without a formal education, a person can advance into management and be earning their age before they are 25 years old.

Fortunately, almost all of our restaurant mangement up through the officer level came from our restaurants, with many starting out on the hourly crew. By focusing on an incentive system which concentrates among the highest unemployment groups, TJTC becomes an investment in expanding the base of taxpayers and not just another Government expenditure.

We in corporate America have our own share of bureaucracy. An extension of TJTC for 5 years will enable large and small businesses alike to develop long-term programs and systems to ensure even greater participation in this worthwhile program.

Thank you, Senator.

Senator HEINZ. Thank you very much, Mr. Sherman.

[Mr. Sherman's prepared statement follows:]

STATEMENT OF THE NATIONAL RESTAURANT ASSOCIATION
ON THE TARGETED JOBS TAX CREDIT
BEFORE THE SENATE FINANCE COMMITTEE
MARCH 2, 1984

The National Restaurant Association appreciates this opportunity to comment on the Targeted Jobs Tax Credit, an effective employment tool for hiring the disadvantaged that we believe should be extended.

The National Restaurant Association is a nonprofit trade association with 10,000 members who operate more than 100,000 establishments, ranging from full-service restaurants to fast food operations. The foodservice industry is the country's largest retail employer, providing jobs to about 8 million people. Total annual foodservice wages and benefits equal nearly $50 billion. Total sales in 1983 were about $144 billion, accounting for about 5 percent of the Gross National Product.

Foodservice employers as a group are one of the largest users of the Targeted Jobs Tax Credit (TJTC). In 1980, the last year the Department of Labor (DOL) released detailed information on usage, 23 percent of all certifications went to employees in the "service" sector of the economy, which includes foodservice. The service sector was the single largest category of TJTC users, representing 38,000 jobs. The next largest category, designated "benchwork" by DOL, accounted for 13 percent of total certifications, or 22,000 jobs.

We estimate that total certifications generated by foodservice (and allied industries such as hotel/motels and clubs) now account for one-fourth to one-third of all certifications. The most recent Treasury figures on total credits taken indicate that foodservice accounted for $65 million in tax credits in 1980.

Although large corporations are the most frequent users of the credit, mid-sized companies and small businesses are participating in the program as well. The latter's lack of participation can be attributed to a number of factors, including DOL's lack of promotion of the program, skepticism on the part of employers who have been caught in the red tape of previous federal job creation programs and the fact that local employment offices have been unfamiliar with the program or have given it a low priority.

In general, use has increased dramatically in the last year, but a major deterrent to use among all businesses continues to be Congress's reluctance to make TJTC a permanent program. Since its inception in 1978, the credit has been reauthorized one or two years at a time, the most recent being the two-year extension in the Tax Equity and Fiscal Responsibility Act of 1982. Many businesses are understandably hestitant to begin or increase participation in a program that has a limited life, especially when it may take them several years to put their own program into effect.

Major changes were made in 1981 that also affected use of the credit. Congress, as well as the Administration, felt that TJTC had not resulted in significant new hires from among targeted groups.

That employees already on the job could be certified retroactively for the credit was said to be a primary reason for this. The cooperative education category was also a source of controversy, because at the time there was no requirement that co-op students be economically disadvantaged.

These problems were taken up when Congress passed the Economic Recovery Tax Act (ERTA), which included a one-year extension of TJTC. The issue of retroactive certifications was settled by a new requirement that all targeted individuals be certified prior to their starting date. There also was a new requirement that qualified cooperative education students be from economicaly disadvantaged families.

Many employers in foodservice expressed concern about these changes, since a large number of the cooperative education students were employed in foodservice. However, those companies that were serious about providing employment opportunities to targeted individuals have adjusted. There was a significant drop in participation in 1982, but certifications have rebounded in the last year.

In FY 1981, the year before the changes in ERTA, total certifications were 411,581, according to DOL statistics. But in the following year, FY 1982, certifications fell to 202,261. However, in FY 1983, total certifications bounced back and reached their highest total ever, 431,182. If this upward trend continues, total certifications in FY 1984 could very well hit the 600,000 mark.

This recent trend reflects a substantial growth potential for TJTC participation, a potential that cannot be realized without long-term extension along the lines of the Heinz bill (S. 2185). Historically, participation in the program has been slow to build but has increased steadily in the later years. For example, one of our larger members reports that in 1978 it hired about 200 targeted individuals. Last year the same corporation hired over 5,000.

The group that benefits the most from increased participation is the economically disadvantaged youth category. They form, by far, the largest pool for TJTC certifications. This is especially true in the foodservice industry, where 1.5 million of our employees are teen-agers. We estimate that 16 percent of all youth employed in the United States have jobs in foodservice. The majority of these jobs are entry-level, requiring little or no experience.

These jobs are particularly well suited for members of targeted groups, who often have no work experience or are unskilled. The jobs provide valuable experience and training and add to an individual's ability to advance or pursue other career goals. For targeted individuals, a job in foodservice means that first step on the economic ladder. For many who have been dependent on government subsidies, it means a chance to establish self-sufficiency and self-esteem--a chance to become a productive, tax-paying member of society.

We believe TJTC represents one of the most efficient uses of tax expenditures to create jobs. In so many industries, rising labor costs have pushed youth and other unskilled groups out of the job market entirely. Increases in the minimum wage have threatened jobs in foodservice, too, but TJTC has helped operators preserve jobs that may have otherwise been eliminated.

Although a company may take a tax credit of up to $3,000 per individual, the actual average net credit is about $548, according to a recent study. That's a terrific bargain when one considers that under the old CETA program, five to six times that amount was spent on each individual and less than one-third of the participants were ever placed in private sector jobs.

When one compares total credits taken versus what would have been paid out in welfare, Social Security, unemployment insurance and other benefits, plus the additional revenue in federal income and FICA taxes that comes with employment, TJTC actually makes money for the government. One study put the savings to the government in one year at $129 million.

Particularly striking are savings that can be achieved in hiring the handicapped. The handicapped comprise a large share of those certified for foodservice jobs, and the National Restaurant Association is proud of its efforts to place both mentally and physically impaired individuals in foodservice jobs. In just one 12-month period (July 1, 1982 - July 1, 1983), more than 4,800 handicapped persons were placed in competitive foodservice employment through our Projects With Industry (PWI) program.

When a handicapped individual is taken off government aid and begins a permanant job, the savings are considerable. A general rule of thumb is that for every $1 invested in a PWI training program, $10 is realized in savings to the government. A specific example is the Easter Seal Goodwill Rehabilitation Center in New Haven, Connecticut, where last year $114,000 in federal grant money was used to train and place 155 handicapped individuals. The center estimates that the placements saved the government $594,000 in public subsidies and provided $330,000 in taxes paid by the new employees, a total savings of over $900,000.

Rehabilitation agencies report that TJTC is a powerful incentive for employers to hire the handicapped, especially if the employer has to make costly structural changes in his establishment to accommodate them. Many of these people would not be hired without the credit. And, ironically, it is becoming more and more evident that the handicapped, when given a chance, make model employees. Studies show that the handicapped have unsurpassed attendance records, have fewer disabling injuries than the average worker exposed to the same work hazards, have no effect on employer insurance costs and rate high on performance evaluations. Overall, they are stable, motivated, reliable and loyal employees.

Unfortunately, the handicapped and the other targeted groups are often viewed by employers as an "unknown quantity." Without the economic incentive provided by TJTC, many employers are not inclined to hire these individuals. Yet, as a result of using the credit, many of our members tell us they now give preference to applicants who are members of a targeted group. Other companies have set goals of hiring a certain percentage of TJTC employees each year. Still others have put the savings they realize from the credit into training programs for the disadvantaged.

To let the credit expire after this year would be a severe setback in congressional efforts to provide jobs to the hard to employ. With use higher than ever, it would be tragic to end the credit now. The bill introduced by Senator Heinz to extend the credit for five years should be enacted. A five-year extension would send a signal to employers that Congress believes providing employment through tax incentives is a sound concept and that it is willing to give employers enough time to make it work.

STATEMENT OF JAMES BARTLETT, MUNFORD, INC., ATLANTA, GA, ON BEHALF OF THE NATIONAL ASSOCIATION OF CONVENIENCE STORES, FALLS CHURCH, VA

Mr. BARTLETT. Good afternoon, Mr. Chairman. My name is Jim Bartlett. I am with Munford, Inc., of Atlanta, GA.

Munford, among other concerns, operates 1,000 convenience stores in 29 States. In addition to that, I am here to represent the National Association of Convenience Stores, NACS. NACS has about 950 members, owning approximately 40,000 convenience stores. This offers employment on an annual basis to about a half a million people.

It seems like just about everything I have to offer in terms of figures has been brought up.

Senator HEINZ. Your entire testimony will be placed in the record.

Mr. BARTLETT. Right. I have been that route before. [Laughter.]

Now, I want to talk about something that has not really been brought up here too much this afternoon—it is very pertinent, I believe—and that is the place that TJTC plays in the JTPA, which I believe everyone is aware of.

I appeared at the first testimonies here with sort of a story about what I intended to do in terms of making Munford successful, and I find myself 2 years later in a sense wishing I had the time to make a complete report. But at any rate, we have become, because of TJTC, involved in all of the States that we do business in, and we list our job orders in approximately 150 ES job offices, in addition to other agencies, plus the local agencies affiliated with the JTPA.

We got started in this in CETA, where we got involved in OJT. We got involved in OJT simply because it was a profitable thing to do. We ran very short programs, and with TJTC tacked onto the end of those programs, it was very profitable, to the extent that today we have done business in over nine States, conducting over 100 OJT programs.

We support in the neighborhood of 50 PIC's currently with cooperation, and that will be extended onto about 150 more.

Now, there are many other members of the National Association of Convenience Stores which are doing similar things. We are all sort of dog eat dog down there at the bottom, so I don't want to give away too many trade secrets, but I do want to share this point, my concern with what would happen to JTPA without that incentive.

ES, PIC's, the CBO's, and service providers at this time need to be able to plan, and plan more efficiently. We need a multiple-year extension, there is no question about that. We tremble day by day, I think, in fear of even 1 year; but what we need I think we ought to concentrate on getting if possible.

Now, in the area of the JTPA once again, we get down to this business of preferential hiring. Our company would be unlikely to hire nearly the numbers that it does from the targeted groups, were it not for the financial incentives involved in that. That means that we would not have the interest in the JTPA that we have if it were not for the financial advantages of it. I think that is true with most employers.

We, too, provide our lower management the incentives, that the TJTC money goes on the lower echelon P&L statements and the reason it goes there is because we have got to twist arms in many occasions to get the preferential hiring that is necessary. If we had our druthers, we would hire 51.2-year-old women to run our stores, because that's what works best. But you folks in Congress won't let us do that. So we are very grateful for the financial incentive to hire the young people who need equal opportunity.

My time is running out, and I have simply got to say that the kind of activity that is represented by I think the majority of the group of people here—and I am glad to say this—most of us are in the retail trade. Most of us are the basic foundation of the industrial complex, and we offer the essential initial job opportunities to all of these kids.

Before I get carried away, which I am often apt to do, I want to point out for Mr. Dole's information, to take a look at the statistics this year and the rapid rise of welfare recipients being hired because of TJTC. That saves one hell of a lot of money, and we do that. We make a point of that. And we do adjust our hiring procedures to accommodate those particular types of things.

I want to thank you, Mr. Heinz, for your efforts in this thing, and I hope you can see us through and can get us our multiple-year.

Senator HEINZ. Mr. Bartlett, thank you. We will do our best.

[Mr. Bartlett's prepared statement follows:]

STATEMENT OF

JAMES E. BARTLETT
Government Programs Coordinator

MUNFORD, INC.
Atlanta, Georgia

and

NATIONAL ASSOCIATION OF CONVENIENCE STORES

on

S.2185 a bill to extend the

Targeted Jobs Tax Credit Program

before the

Subcommittee on Economic Growth,
Employment and Revenue Sharing
(Senate Finance Committee)

March 2, 1984
2:00 p.m.
Senate Dirksen SD-215

National Association of Convenience Stores
5201 Leesburg Pike, Suite 809
Falls Church, Virginia 22041
(703) 578-1800

Good afternoon Mr. Chairman, members of the subcommittee, my name is James E. Bartlett. I am Government Programs Coordinator for Munford, Inc. a company headquartered in Atlanta, Georgia, which, among other concerns, operates approximately 1,000 convenience stores called Majik Markets in 29 states.

In addition to representing Munford at this hearing today, I also appear before you on behalf of the National Association of Convenience Stores (NACS), the national trade association representing the convenience store industry. NACS has over 950 members who own and operate nearly 40,000 convenience stores in every state of the union.

I wish to register the support of Munford and NACS for S.2185, your bill, Mr. Chairman, to extend the Targeted Jobs Tax Credit (TJTC) for 5 years through December 1989.

I. Need For Extension

Since the inception of TJTC in 1979, the convenience store industry has employed literally thousands of eligible employees under the program. Most often, these individuals have gained their first real work experience in our stores, experience enabling them to build an employment record upon which to improve their upward mobility and enhance opportunities in our industry or other industries.

In keeping with the original intent of Congress in beginning the TJTC program -- namely to provide an incentive to employers to hire persons from targeted groups with particularly high unemployment rates or other special employment needs -- our industry has responded by working with state employment service offices to identify eligible employees and post job orders on a regular basis.

In my company, Munford, our participation in TJTC began in 1980. Over the past three years, our participation has resulted in active cooperation with over 100 local employment service offices where it is mandatory for the over 200 Munford Field managers to place Job Orders. Over 6,000 employees have been hired through employment and training agencies of which about 25% have resulted in a TJTC credit.

Equally important, though, is the fact that as a direct result of TJTC activity, Munford has become involved with numerous CETA prime sponsors and service providers and has conducted over 120 OJT programs in nine states. Our most recent activity is the new VA OJT program which we are implementing in our twenty-nine state operational area.

The point of all this is that nothing I have described about our involvement in employment and training programs would have occurred without the incentives of the TJTC program. This indicates that our consideration of a TJTC extension here this afternoon cannot be viewed in a vacuum. Simply stated, extension of TJTC will continue to serve as a motivator to the business community to get active in broader employment and training programs. Specifically, a five-year extension is necessary to encourage employer planning for expansion of employment and training activity into related areas such as JTPA . . . planning that must occur in intervals greater than one year to be efficient.

This planning factor is as important to the federal government as it is to business. The Department of Labor would no doubt improve its marketing of the TJTC program if it were clear that the program would have a multiple year duration.

Private Industry Councils (PICs), Community Based Organizations (CBO's) and service providers all use TJTC as an incentive to employers in marketing their programs. These PICs need a multiple year extension, preferably 5 years, in order to plan their activity.

As with TJTC, only now realizing real effectiveness, it will probably take several years for JTPA to take hold and become an effective employment and training aid. Private sector support of programs like JTPA and TJTC is essential, especially by industries like the convenience store industry. While the objectives of such programs often are defined in high tech and specialized training terms, it is important to remember that not all trainees will "make the grade." Significant numbers of trainees, most of whom are TJTC eligible, will need work to carry them through while skills continue to be honed.

Industries like ours, therefore, find the TJTC program appealing in this regard. We can and do provide these individuals with the employment opportunities they need. Our industry employs nearly a half million people. Most often these individuals are employed for short intervals which involves constant and costly training, retraining, and orientation on our part. If incentives to hire the traditionally hard to employ, like TJTC, were to fall apart, it is my opinion that significant hiring of these individuals simply would not occur.

II. Program Observations

While the primary purpose of my statement today is to support an extension of this valuable employment program, I would be remiss if I were not to mention some observations I have in the broad areas of program administration and employer participation.

A. Program Administration

First, it must be made clear that the current problems with the TJTC program did not originate in Congress. Quite appropriately, Congressional intent, as expressed in 1978 was to relieve the employer of as many burdens associated with the program as possible. Specifically addressed by Congress were elimination of unnecessary paperwork burdens and burden of proof in the area of eligibility verification of individual TJTC employees.

The first two editions and now third draft edition of the Department of Labor handbook governing TJTC procedure have evolved to involve employers in the verification/eligibility business to an extent greater than ever before. This fact threatens private sector participation and runs contrary to original Congressional intent which needs to be maintained.

With specific regard to eligibility verification in the area of income proof and defined economic status, the problem becomes acute for employers since employers are unable to legally derive from employees the information necessary to determine economic status.

If such documentation were to be considered essential, it must be the government's responsibility to obtain it. However, it is not clear that such income proof is necessary since excessive abuse of the TJTC program has not at all been implied in any of the post-audit reports generated under the program. And, if there's anything that the state employment services don't need its unnecessary added work in this area.

In fact, most problems encountered by my company with local employment services relate to their staffing and workload imbalances. The 1985 Budget recently transmitted to Congress allots $20 million for TJTC. This breaks down to support for about 500 TJTC slots in the 50 states . . . less than ½ person per local employment service office. It is more than worth considering additional appropriations for this program in an effort to streamline and improve the ability of the state offices to deal with the program requirements, but perhaps even more importantly it is imperative to be careful not to add duties to an already severely overloaded system.

B. Employer Responsibility

At Munford we feel and act on a responsibility we perceive as ours under the TJTC program. We believe that our efforts at continually improving communications with Department of Labor representatives aids the overall objectives of the TJTC program and helps alleviate the workload of the Employment Service (ES) offices.

With specific regard to the processing of paperwork through local ES offices, it is, for example, Munford Corporate policy that interviews pursuant to filed letters of intent be arranged within 10 working days. Our personnel people follow up on such outstanding paperwork helping both Munford and the ES offices achieve their objectives . . . namely placing individuals in jobs.

This close monitoring of the TJTC program by Munford perceived by us as not only our responsibility, but in our interest, keeps things moving in the process of vouchering and certifying TJTC employees, a benefit to all concerned.

I believe that Munford's involvement with TJTC and other employment programs provides a good model. We have strived to keep up our end of the responsibilities we perceive as ours under these programs. All things considered, we "pay our way" in our cooperation with government programs. The various agencies of jurisdiction with which we work have also benefitted from our cooperative efforts through placement credits, their measure of success.

We have been aggressive in our pursuit of excellence and consistency relative to government employment programs. In 1979, we had virtually nothing going in this vital area and today we're involved in just about everything the employment and training community offers. In that connection, I think it is more than reasonable to expect others in our industry, and there are many already involved, to continue to improve and expand not only their roles in programs like TJTC but to apply their involvement in related programs like the JTPA. This increased involvement by members of our industry and similar industries represented on the panel here today can only help to advance the overall goal of a better employment community and increased opportunity for the disadvantaged. Extending TJTC is key to continued growth.

I urge you to push for passage of S.2185 without delay. Plans for next year if not already made are being made now and the sooner the status of TJTC extension is clear the better all concerned will be. Extended TJTC, particularly a multiple year extension is critical to continued momentum in the private sector to get involved in employment programs.

It is with that point that I close my remarks here today. Thank you for your attention and special appreciation to you Mr. Chairman for your continued leadership in this matter.

I'd be happy to answer any questions you may have.

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Senator HEINZ. Let me just say, as someone whose background and family includes about four generations of people in marketing and sales, I have never visited a retail store I didn't like. [Laughter.]

Mr. BARTLETT. I had a hunch it might get through to you. [Laughter.]

Senator HEINZ. Ms. DeLuz.

STATEMENT OF LOZELLE J. DELUZ, PH.D., OWNER-OPERATOR, McDONALD'S CORP., WILMINGTON, DE

Dr. DELUZ. Mr. Chairman, I am Lozelle DeLuz from your neighboring State to the south, Delaware. It is an honor for me to appear before you today to discuss Senate bill 2185 to extend the targeted jobs tax credit.

I would like to gratefully thank the committee, and in particular I would like to thank you, Senator Heinz, for a sensitivity of and a commitment to the critical need for an extension of the legislation which will encourage the private sector to continue to hire the urban disadvantaged and others who have a difficult time finding employment opportunities.

My husband and I are independent franchise owner-operators of two McDonald's family restaurants in Wilmington and Claymont, DE. As such, I was privileged to be named Entrepreneur of the Year for the State of Delaware for 1983 by the Brandywine Professional Association.

McDonald's is a system of 7,778 restaurants worldwide, with over 6,200 of these restaurants in this country. As a system, we serve more than 11 million customers daily. Approximately 4,800 of the 6,200 restaurants, or 77 percent, are owned by franchisees such as my husband and I.

Although McDonald's system's sales for 1983 were over 8.6 billion, the heart of this system consists of small business people like us who own and operate our own McDonald's restaurants.

Our McDonald's restaurant business has been participating in the targeted jobs tax credit program since 1979. The program has not only provided us with substantial tax savings over the years but has also made it possible for us to employ good employees who would not have been hired otherwise. The presence of TJTC has given us the incentive to take the extra time and effort necessary to seek out other qualified employees.

I have seen and experienced firsthand the effectiveness of this tax credit in encouraging us to hire inner-city youth and others who might not have been employed otherwise. I also have seen a number of success stories involving individuals who through the TJTC program have advanced to management-level positions. We currently have one store manager, six swing managers, and four manager trainees who were originally hired as crew people through TJTC.

One of our successes is a young man who we hired at the age of 16. We might not have hired him if he had not been targeted jobs tax credit certified. He has matured, obtained all of the necessary skills and training to qualify him as a manager, and he is now employed as a manager of one of our stores.

Time will not permit me to cite other examples, but I have included them in my written testimony.

Senator HEINZ. It will all be included in the record.

Ms. DELUZ. Yes.

I would therefore like to end by recommending to you that this program be extended for a reasonable period of time to allow more employment opportunities for the disadvantaged. More specifically, I would like to urge you to extend the program for at least 5 years by enacting Senate bill 2185.

Thank you.

Senator HEINZ. Thank you very much.

Mr. Cohen.

[Dr. DeLuz' prepared statement follows:]

TESTIMONY OF LOZELLE J. DELUZ, Ph.D.
MCDONALD'S OWNER/OPERATOR
WILMINGTON AND CLAYMONT, DELAWARE

TARGETED JOBS TAX LEGISLATION
FRIDAY, MARCH 2, 1984
ROOM S.D. - 215 DIRKSEN SENATE OFFICE BLDG.
WASHINGTON, D.C. 20510

Mr. Chairman and members of the Committee, it is an honor for me to appear before you today to discuss S. 2185, to extend the Targeted Jobs Tax Credit.

I would like to gratefully thank the Committee, in particular the sponsor of this legislation, Senator Heinz, for a sensitivity of and a commitment to the critical need for an extension of the legislation which will encourage the private sector to continue to hire the urban disadvantaged and others who have a difficult time finding employment opportunities.

My husband and I are independent franchised owner/operators of two McDonald's Family Restaurants to Wilmington and Claymont, Delaware. As such, I was privileged to be named "Entrepeneur of the Year" for the State of Delaware for 1983 by the Brandywine Professional Association.

McDonald's is a system comprised of 7,778 restaurants worldwide, with over 6,200 restaurants in this country. As a system we serve more than 11 million customers daily. Approximately 4,800 of the 6,200 restaurants, or 77% are owned by franchisees, such as my husband and I. Although McDonald's total system sales for 1983 were over 8.6 billion the heart of this system consist of small business people like us who own and operate our own McDonald's restaurants.

Our McDonald's restaurant business has been participating in the Targeted Jobs Tax Credit program since 1979. The program has not only provided us with substantial tax savings over the years but has also made it possible for us to employ good employees who would not have been hired otherwise. The presence of TJTC has given us the incentive to take the extra time and effort necessary to seek out other qualified employees.

I have seen and experienced first-hand the effectiveness of this tax credit in encouraging us to hire inner city youth and others who might not have been employed otherwise. I also have seen a number of success stories involving individuals who were hired through this program. Of the 186 new employees we hired through the TJTC program, several have advanced to management level positions. We currently have one store manager, 6 swing managers, and 4 manager trainees who were originally hired as crew people through TJTC.

One of our successes is a young man who we hired at the age of sixteen. We might not have hired him if he had not been Targeted Jobs Tax Credit certified. He has matured, obtained all of the necessary skills and training to qualify him as a manager and is now employed as a manager of one of our stores.

Another employee hired under the program was a functional illiterate. As the system and production of the products became more sophisticated, it became necessary for the employee to be able to read the grill order slips (these are the special requests for products we prepare to order) in order to retain the job as grill trainer. The employee learned to read through a youth employment program, with the assistance of store manager and Elwyn Institute for the handicapped. This employee was named handicapped person of the year 1983, in New Castle County Delaware. The employee was presented an award by Governor Dupont for his perseverance and outstanding performance. I don't believe that this would have been possible without the TJTC program.

Time will not permit me to cite other examples, however, we feel as owner/operators that we have helped many people in several of the "disadvantaged" categories, as defined by the legislation.

I would therefore like to recommend to you that this program be extended for a reasonable period of time to allow more employment opportunities for the disadvantaged. More specifically, I would urge you to extend the Targeted Jobs Tax Credit for at least five years by enacting S. 2185.

I would be glad to answer the committee's questions, if there are any at this point.

STATEMENT OF MERRILL K. COHEN, DIVISION PRESIDENT, MERRILL'S RESTAURANTS, INC., INDIANAPOLIS, IN

Mr. COHEN. Thank you.

I will try to make my prepared speech very quick because I have a few extemporaneous things I would like to add.

Senator HEINZ. Please proceed.

Mr. COHEN. We operate 11 in-plant cafeterias in Indianapolis. Four years ago we decided to hire targeted jobs tax credit employees, and almost half of our organization were either hired with Federal or State of Indiana tax credits. This program has helped our company survive. Our employees have benefited from having productive jobs instead of being on welfare, and our community has taxpayers instead of tax receivers. You have heard that before.

We select, indoctrinate, and train each new employee. This gives each new employee a sense of dignity, self-worth, and a hope for the future. And we hope you will continue your efforts on behalf of renewal, Senator Heinz.

I want to add, extemporaneously, a few remarks. The big question that has been overlooked is: Why are there so many black kids unemployed on the street throughout the United States? Eighteen-year-olds—go down any street in the United States, and there they are. They are shooting basketballs, and there are no jobs for basketball shooters.

Now, compare that, this question about preferential treatment—and absolutely TJTC is preferential treatment—compare that kid, that kid that I just mentioned, to my son who just took his bar examination and who has a masters degree, and who has a wealthy influential father. Compare that kid to my son, and what chance does that kid have?

Pick up any newspaper throughout the United States, and the ads are that thick trying to hire people; but that kid doesn't qualify. My kid can qualify for any of those jobs. And that's the thing that we have to look straight in the head on, that in order for that kid who is uneducated, not trained, without a work ethic, for us employers to take him into the firm, we should be rewarded by that credit. And that credit has benefited our organization.

But at the same time, I can tell you for a fact that half of our organization came to us through the tax credit.

One other small point: I want to point out that all the pious talk that the AFL-CIO talks about, about affirmative action and all the other stuff that they do—great. But they said, "You cannot discriminate." Well, what are you going to do with a handicapped person?

For the handicapped person, you can piously say, "I am for hiring the handicapped person"; but then, when the employer steps in and says, "Yes, I will hire 10 percent of my employees as handicapped," isn't that discrimination? It is. It is preferential treatment. And therefore, we have to face it head-on. Hiring the underprivileged is discrimination. It is preferential treatment. But I have to say I am 100 percent for it.

Senator HEINZ. Mr. Cohen, thank you very much.

[Testimony of Mr. Cohen follows:]

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MERRILL K. COHEN
DIVISION PRESIDENT
MRS. MERRILL COHEN
CORPORATE PRESIDENT

February 29, 1984

Testimony of Merrill K. Cohen, President, Industrial Catering Company, Indianapolis, Indiana

Re: S2185 to extend Targeted Jobs Tax Credit

We operate eleven in-plant cafeterias in Indianapolis. Four years ago we decided to hire Targeted Jobs Tax credit employees. Almost half of our organization were hired with either Federal or State of Indiana tax credits.

This program has helped our company survive. Our employees have benefited by having productive jobs instead of being on welfare. Our community has tax-payers instead of tax-receivers.

We select, indoctrinate, and train each new employee. This gives each one a sense of dignity, self worth, and a hope for the future. We must continue the concerted effort to hire the underpriveleged which is the reason Targeted Jobs Tax Credits should be extended.

Sincerely,

Merrill K Cohen

Merrill Cohen

Senator HEINZ. Mr. Whitt.

STATEMENT OF LARRY WHITT, VICE PRESIDENT, GOVERNMENT RELATIONS, PIZZA HUT, INC., WICHITA, KS

Mr. WHITT. Thank you, Mr. Chairman.

My name is Larry Whitt. I am vice president of public relations and Government affairs for Pizza Hut, Inc., in Wichita, KS. With me today is W. Peyton George of Miles and Stockbridge, our Washington counsel.

Pizza Hut has been strongly involved in TJTC over the past 5 years, and we would therefore urge that it be extended for 5 years.

Since its inception, Pizza Hut has hired in excess of 11,000 TJTC employees. In 1983 alone, we hired 6,366 TJTC employees, paying these people over $11.5 million in wages and compensation. I think the best way to exemplify the program at Pizza Hut is by a few examples:

In South Dakota, we presently have an area supervisor who came as a TJTC employee as an assistant manager. He worked up to the position of a manager, a training manager, and now he is an area supervisor. He has control over the physical properties and the employee relations of at least four units, well in excess of $5-$6 million.

In Ohio we have an 18-year-old girl who came to us as a disadvantaged youth who is now one of the primary supporters of a family of 12. She started with our program in 1981, and now she is a full-time assistant manager.

In Indiana we have another disadvantaged young lady who is the head of a household. She has one dependent child. She had been receiving aid to dependent children and also food stamps. She has now been promoted to shift supervisor and is one of our more productive employees.

In Montana, we have been working with the Vocational Placement Center. We have hired eight handicapped and/or mildly retarded employees, and we are very, very pleased with their progress at this point.

I think, in conclusion, there are three points I would like to make:

The program was intended to stimulate employers to hire these people. It worked. It therefore makes opportunities for these people that might not otherwise have been available.

It gives them opportunity for promotion.

It also is costeffective, in that it does lower the public-assistance programs, and it also provides revenue in terms of tax receipts.

Mr. Chairman, again I would encourage you, and I applaud your efforts for assisting us in this matter, and we would like to see this bill extended for another 5 years.

Thank you.

Senator HEINZ. Mr. Whitt, thank you very much.

[Mr. Whitt's statement follows:]

STATEMENT

by

Larry H. Whitt
Vice President - Public Relations & Government Affairs
PIZZA HUT, INC.
9111 East Douglas
Wichita, Kansas 67201

Good afternoon, Mr. Chairman and members of the Subcommittee. My name is Larry H. Whitt and I am Vice President - Public Relations & Government Affairs, Pizza Hut, Inc., Wichita, Kansas. I am accompanied by W. Peyton George of Miles & Stockbridge, our Washington counsel.

Pizza Hut is the largest system of pizza restaurants in the world. I expect that most of you are familiar with our restaurants with the red roof since they are located in every State of the Union, as well as in twenty-six foreign countries. Our 4,000 restaurants are about half company-owned and the other half franchised. Although we are a relatively young company, having been founded only in 1958, we have a rather unique and interesting history that I feel epitomizes the potential of our country's free enterprise system. Nowhere else on earth could two teenage brothers have taken a $600 investment and molded it into the world's largest international company in our business.

Our Pizza Huts have over 90,000 employees at any given time. The vast majority of our employees are eighteen to twenty-five years old. Last year, with the introduction of our Personal Pan Pizza, we created 20,000 new jobs system wide -- mostly entry level positions. This was in a period when the unemployment rate was at a high level. Many of these newly created positions were filled with targeted job tax credit (TJTC) participants. We have utilized the TJTC program since its inception and strongly urge that it be extended for at least five more years.

For many of the TJTC employees, this is their first job ever. We teach them, in addition to the job skills, the fundamentals of being an active member of the nation's workforce. Pizza Hut, in 1983 alone, spent over $853,000 in training of TJTC employees and hired 6,366 employees under this program in our company-owned stores. We paid this group of employees over $11,500,000 in compensation. Our TJTC hires are, of course, certified as eligible and screened by the State Employment offices. We think our achievement rate with the program is excellent and I would like to highlight a few of our many success stories.

-- In South Dakota, a young man hired as a disadvantaged youth under this program and trained by Pizza Hut has, in three short years, been promoted four times going through the ranks as Restaurant Manager, Restaurant Training Manager and recently Area Supervisor. He recently received one of Pizza Hut's top awards for the most improved store.

-- In Ohio, an 18-year-old young woman hired as a disadvantaged youth now supports her entire family of 12. She has advanced rapidly through the system, from becoming a full-time employee in 1981 to Assistant Manager in 1983. She has since graduated from the program and we have gained a long-time valued employee while the government has gained a productive taxpayer.

-- In Indiana, a young woman started as a part-time employee under the program and has since been promoted to Production Leader. She is the head of the household and supports one child. Before joining Pizza Hut, she was receiving federal assistance under the Aid to Dependent Children program and Food Stamps. She is no longer under any federal assistance, and she is the best employee in her restaurant.

-- In another situation in Indiana, a 26-year-old mother was hired as a TJTC participant under the disadvantaged minority category. She has already been promoted to Production Leader, and she is no longer receiving Aid to Dependent Children or food stamps. She told her supervisor recently, "I just got tired of the government supporting me. I wanted to do it myself." With the help of Pizza Hut and the TJTC program, she was able to achieve her goal.

-- In Montana, working with the Vocational Placement Center, we have hired eight handicapped and/or mildly retarded employees who either had not been employed before or else had worked in sheltered environments. We, and these employees, are proud of their progress.

These examples highlight two important aspects of the TJTC program. First, many of our TJTC employees and former TJTC employees are working their way into managerial positions. TJTC employees in entry-level positions who have potential are given the opportunity for advancement. Second, other TJTC employees whose potential is achieved just by having a productive job, are given an opportunity they might not have had otherwise.

TJTC is a simple, easy to understand private enterprise stimulus. Our experience is that the program is cost effective by lowering public assistance payments and raising tax receipts when the targeted individuals begin work because of the credit. Pizza Hut, Inc. supports a five-year extension of this program.

Senator HEINZ. Ms. Jones.

STATEMENT OF BETTY JONES, DIRECTOR OF AFFIRMATIVE ACTION AND CORPORATE TRAINING, J.L. HUDSON'S, DIVISION OF DAYTON HUDSON CORP., MINNEAPOLIS, MN, ON BEHALF OF THE ASSOCIATION OF GENERAL MERCHANDISE CHAINS, WASHINGTON, DC

Ms. JONES. Thank you, Mr. Chairman.

My name is Betty Jones, and I am director of affirmative action and corporate training for the J.L. Hudson Co. in Detroit, MI, which is an operating company of the Dayton Hudson Corp. We are a diversified national retailing group headquartered in Minneapolis, MN. I am testifying on behalf of the Association of General Merchandise Chains.

For the past 3 years, Dayton Hudson Corp. has been involved in the Targeted Jobs Tax Credit Program. In 1983, a major effort was made to increase the stores' participation in the program.

We would like to share with you today what we feel is the value of the program and some of the efforts we have made to make the program work as Congress intended:

One. To ensure that our store managers are involved in making the program work, the tax credit is credited to the individual store. This means that the credit will be reflected in the store's bottom line.

Two. In addition, we became partners with the local job services and community agencies, to complete both the certification process and to cooperate in identifying a pool of TJTC-eligible candidates.

Our corporation is committed to making the Targeted Jobs Tax Credit Program work through community partnership in placing hard-to-employ people. We can cite many specific examples that support this statement. Our company sees long-term benefits beyond the actual credit, such as: (a) Providing a work force that is representative of the community. We have found that 10 percent of our employee population represents the Targeted Jobs Tax Credit groups. (b) TJTC also provides an opportunity for us to fulfill our corporate responsibility to residents in the communities in which we do business. Also, the reality of an employed versus an unemployed force provides a much better economic climate in which to do business.

Because of our experience and understanding of TJTC, the Dayton Hudson Corp. has served as a resource for the Minneapolis-based business community to become involved in TJTC. Through an organization which develops employment opportunities, the Neighborhood Employment Task Force, we provide technical assistance—which includes training of their personnel and assisting in actually processing the certificates—to small- and medium-sized companies in making TJTC work.

In conclusion, TJTC is an effective and worthwhile program. We think that the program helps businesses of all sizes in our industry. To ensure that initial changes in companies' hiring practices are maintained over time, employers need some assurance that the program will continue to be available as they gear up to participate. Therefore, we urge Congress to approve a multiyear extension.

I would like to personally thank you for your leadership and support in this effort.

Thank you.

Senator HEINZ. Ms. Jones, thank you very much.

[Ms. Jones' prepared statement follows:]

Betty Jones
Director of Employee Relations
J.L. Hudson's Company
Dayton Hudson Corporation

Statement of General Merchandise Chains
Testimony before Subcommittee on
Economic Growth, Employment and
Revenue Sharing
Senate Finance Committee
Washington, D.C.
March 2, 1984

My name is Betty Jones, and I am the Director of Employee Relations, from J.L. Hudson's in Detroit, MI which is an operating company of the Dayton Hudson Corporation. We are a diversified national retailing group headquartered in Minneapolis, MN. I am testifying on behalf of the Association of General Merchandise Chains (AGMC).

The Association of General Merchandse Chains (AGMC) represents the Nation's discount variety general merchandise retail industry. AGMC's memberships include retail companies that operate more than 20,000 discount variety, dollar, junior department, family center, off-price, factory outlet, catalog showroom, and other general merchandise stores. These members range widely in size and include many of the nation's largest retail chains as well as companies active in one or more regions of the country and those with only a few locations, or even a single store. AGMC member company stores are located in all 50 states and accounted for more than $45 billion in sales.

For the past three years, the Dayton Hudson Corporation has been involved in the Targeted Jobs Tax Credit program. In 1983, a major effort was made to increase the stores participation in the program by hiring a TJTC management team on as part of our corporate staff, the team advises, trains and works with the locations to implement TJTC. We, at Dayton Hudson, are excited about the results.

We would like to share with you today what we feel is the value of the program and some of the efforts we have made to make the program work as congress intended.

- To insure that our store managers are involved in making the program work, the tax credit is credited to each store. This means the credit will be reflected in the store's manager's review of the store's profitability. This reinforces their commitment to the program. One of our Dayton Hudson operating companies reports the TJTC results to the individual stores on a quarterly basis. Hudson's plans to implement the practice this year.

- We became partners with the local job services and community agencies to complete both the certification process and to cooperate in identifying a pool of TJTC eligible candidates.

- To successfully coordinate the identification of pools of TJTC candidates, Dayton Hudson found it necessary to hire a full time member on the TJTC Management Team.

Our Corporation is committed to making the Targeted Jobs Tax Credit program work through community partnerships in placing hard to employ people.

Specific examples of this effort are:

- My company, J.L. Hudson's, Detroit, MI worked with the Michigan Youth Corps which had a pool of 200,000 16 and 17 year olds who needed jobs. The Corps had asked corporations for assistance. Hudson's responded by calling each personnel manager and letting them know that the young people would be applying and to report back to the company headquarters on the numbers hired. Hudson's was a leader in the community.

- J.L. Hudson's also actively recruited during the mass hire of the new store opening at Battle Creek, MI. They used agency sources to let them know about openings. This was an easy inroad with their new stores. When the mass hire ended, the store had over 30% with TJTC eligibility.

- At J.A. Brown, our department stores in Oklahoma, TJTC manager volunteered for the Job Service State Advisory Board. He was able to give suggestions on how to make positive TJTC referrals from Job Service to the stores. The manager was also able to talk about the TJTC program and make suggestions on the efficiency of the process.

- Lechmere, our speciality merchandiser in Boston, MA, held an Education/Community Information Exchange to open lines of communication to become partners in placement with Education and community based non-profit agencies. They concentrated on Boston and Cambridge with the idea of using the Cambridge Store in building community placement.

  - Lechmere invited a number of community and education organizations to attend the exchange.

  - They gave a picture of their philosophy, priorities, hiring guidelines and the growth of jobs in the next 5 years. At the meeting they emphasized commitment to affirmative action.

  - The company asked the education and community agencies for referrals with TJTC vouchers in hand.

- At Target, our discount store at Broadway-Lyndale, Mpls, MN, Target Personnel asked the community based organizations, prior to the store opening to refer clients. The employees were vouchered on site and the store realized over a 37% eligibility rate.

- At the Target store in Rochester, MN, the Personnel Coordinator actively works with the Department of Vocational Rehabilitation and the County Social

Services which provide her with certifiable candidates. She invited community agency representatives to her store for a tour and described the jobs in operation. In this way, they could see what she wanted and were able to place candidates with her.

These are just a few examples of the way that the TJTC works for us and other general merchandise companies.

When the benefit of the tax credit is brought to the store level, the incentive for store personnel to hire from certain employment groups is evident. Currently by category of tax credit eligibles, Dayton Hudson hired:

		ECONOMICALLY DISADVANTAGED GROUPS	
AID TO FAMILIES WITH DEPENDENT CHILDREN	12%		
WORK INCENTIVE	1%	VIET NAM VETERAN	3%
SOCIAL SECURITY SUPPLEMENTAL INCOME	.1%	EX-FELON	.1%
VOCATIONAL REHABILITATION	4%	18-24 YEAR OLDS	67%
GENERAL ASSISTANCE	1%	COOPERATIVE YOUTH	.4%
		SUMMER YOUTH	1.5%

Our company sees long term benefits beyond the actual credit such as:

- Providing a work force that is representative of the community. We have found that 10-12% of our employee population represents the Targeted Jobs Tax Credit groups. This representative work force helps us understand our community and market.

- TJTC provides an opportunity for us to fulfill our corporate responsibility to residents in the communities in which we do business. Also the reality of an employed versus an unemployed force provides a much better economic climate in which to do business.

Because of our experience and understanding of TJTC, the Dayton Hudson Corporation has served as a resource for the Minneapolis based business community to become involved in TJTC. Through an organization which develops employment opportunities, the Neighborhood Employment Task Force, we provide technical assistance (which includes training of their personnel and assisting in actually processing the certificate) to other companies in making TJTC work. As a result:

- Small and medium sized businesses have been able to become involved.

- Unemployed persons in the neighborhoods are matched with the companies looking for TJTC eligible employees.

In conclusion, TJTC is an effective and worthwhile program. We think that the program helps businesses of all sizes in our industry. To insure that initial changes in companies hiring practices are maintained over time, employers need some assurance that the program will continue to be available as they gear up to participate. Therefore, we urge congress to approve a multi-year extension.

Senator Heinz. All of you have made excellent contributions. Many of you have given us examples of individuals who have been hired who might not only not have been hired but who have progressed and have become very valuable employees.

Mr. Bartlett made an interesting observation about how the Job Training Partnership Act might not operate nearly so well without the targeted jobs tax credit as a means of getting trained people into the work force and the people who are in the work force trained.

As I have read your entire statements, you have all made a plea for consistency in this program—consistency, meaning at least 5 years reauthorization of it—and, as I take it, the principal means by which we might seek to bring more people into the program.

Let me ask just one question. It was suggested by an earlier witness, in effect the AFL-CIO, that employers are going to fire employees in order to replace someone to get this tax credit. Let me ask: Have any of you known that to be the case? And if it is so, what can we do about it?

Mr. Bartlett, do you know?

Mr. Bartlett. Yes, sir, that has been the case here and there. I think it is very spotty, but it is bound to happen. Sometimes a complaint from an employee being fired will be that some TJTC person may have taken their job. But I think there is some validity in that.

Senator Heinz. What can we do about it? Any suggestion?

Mr. Bartlett. I think that is the employer's responsibility. I think that goes with good faith in the program, not to permit it.

In our company it costs a supervisor his job if he is caught doing such a thing.

Senator Heinz. Dr. DeLuz, have you ever fired anybody to hire a tax-credit-vouchered person?

Dr. DeLuz. Indeed not. No, the nature of our business is that we hire youth, and we hire them on a part-time permanent basis, most youth. Many of them go on to college, many of them are still in school, so their hours are irregular.

We are always looking at and tapping the job market.

I think one thing that my experience has shown has been that the nature of McDonald's restaurants is that they recruit their employees mainly from their own neighborhoods. One of our operations is in an area where there are many disadvantaged youth who do not have transportation to get to jobs in other places. They might not be employed, were we not there to give them that opportunity for employment; but we certainly do not in any way discriminate.

When we need persons, then we hire them. If they happen to be 35, that's all the better. But it has given us the opportunity. The goal is not to create new jobs as such, but in our situation we have in fact created new jobs because of the tax incentive. We were able to take the tax incentive to put a drive-thru on one of our restaurants and hire eight additional persons that we might not have hired had we not had that tax savings to do so.

Senator Heinz. Well, it is nice to have some evidence on the record that this does in fact create jobs, not just a higher level of employment.

Mr. Cohen.

Mr. COHEN. I don't think it has happened at all. I would challenge anybody to show me a single case.

Senator HEINZ. Mr. Bartlett is to your left.

Mr. COHEN. I know. But I talked to three or four of the State administrators, and not a single one has heard of a single case.

Now, let me point out that it would be to no advantage to fire someone until after 2 years, because you are still getting tax credits right down the line for 2 years. So this means: Would you fire him after having an employee for 2 years, in order to get a tax credit? Anybody in the retail business knows how valuable an employee is after you have had him for 2 years, with all the training you have put into it, and everything else.

So, I personally do not know, and I would not believe it if somebody showed me, any instance in which a single case has happened.

Senator HEINZ. Mr. Sherman?

Mr. SHERMAN. I am not aware of a single case in our company; but during the period that the program has been in effect, our work force has more than doubled.

What basically takes place in our business is that the discrimination or the effort to work toward hiring the targeted employee takes place at the corner park. And as we look around our company and at the state of employment in the Nation, we haven't lacked for workers to apply for jobs in our company. So it has taken an effort to focus on employees.

I can certainly say that efforts that we have made, for example, on prisoners on work-releases and employment thereafter, it certainly wouldn't have been cost effective for us to do, without a program like this.

Senator HEINZ. Ms. Jones.

Ms. JONES. I don't know of any instances where we have terminated employment.

Senator HEINZ. Mr. Whitt.

Mr. WHITT. I have no knowledge of that.

Senator HEINZ. Mr. Bartlett, you were seeking recognition.

Mr. BARTLETT. Well, you see, we're a big outfit, and we hire 20,000 people a year. So what I am talking about in the course of the TJTC Program is probably in the neighborhood of 40,000–45,000 people. And anything that can happen, Senator Heinz, is going to happen.

Senator HEINZ. That sounds like a corollary of Murphy's law.

Mr. BARTLETT. That is exactly the way I function, sir. And I cannot sit in the hallowed halls of Congress and tell a lie. So I know of all sorts of nasty things here and there, but they are not significant.

Senator HEINZ. We shouldn't sit here and do it, either.

Gentlemen, ladies, you have been very helpful indeed. We thank you very much for the distances many of you have traveled and for your excellent testimony. Thank you so much.

Our last panel consists of Lee Fremont-Smith and Robert Goulder, and Mr. Phillip Schepel. Would you come forward please?

Mr. Lee Fremont-Smith.

VOICE. He is not here.

Senator HEINZ. Is there a Mr. Giery in the audience from the Food Service & Lodging Institute? Is anyone representing them?

[No response.]

Senator HEINZ. Let's see. You are Mr. Schepel, and you are Mr.——

Mr. GOULDER. Bob Goulder.

Senator HEINZ. Very well. Please proceed.

STATEMENT OF ROBERT F. GOULDER, MANAGER, PERSONNEL PLANNING, GREAT LAKES STEEL DIVISION, NATIONAL STEEL CORP., ECORSE, MI, ON BEHALF OF EMPLOYERS NATIONAL JOB SERVICE COMMITTEE, WASHINGTON, DC

Mr. GOULDER. Mr Chairman, my name is Robert F. Goulder. I am manager of personnel planning of the Great Lakes Steel Division of the National Steel Corp. in Detroit, MI.

I also serve as vice chairperson-east of the Employers' National Job Service Committee, and I am testifying in that capacity today.

In the written testimony I have prepared for distribution to you and the members and staff of the Senate Finance Committee, I have briefly described the organization, goals, and objectives of our volunteer organization, the Employers' National Job Service Committee. In this verbal testimony, I will forego this information for the sake of brevity.

On December 31, 1984, the current legislation authorizing the Targeted Jobs Tax Credit Program will expire. The President's proposed fiscal year 1985 budget acknowledges a support for the continuation of the TJTC Program, but with a major change and significant shortcomings which are of paramount concern to the private sector which I represent and to which I want to address my testimony this afternoon.

The Employers' National Job Service Committee and the Job Service Employer Committees nationwide recommend supporting the reauthorization of the TJTC Program, but with two modifications to the President's proposal or to Senator Heinz' bill, S. 2185, extending the TJTC Program for 5 years:

One. Fund out of general revenues rather than from FUTA taxes; and

Two. Fund the program adequately by a formula.

The ENJSC supports Senator Heinz' 5-year extension of the TJTC Program.

We recommend that the TJTC Program continue to be funded out of the general revenue as it has been done in previous years, rather than from our private sector FUTA taxes as specified in the President's proposed fiscal year 1985 budget.

It is our opinion that title IX of the Social Security Act, which governs the use of FUTA taxes, does not permit the expenditure of these resources for the TJTC Program.

We feel that the taking of FUTA taxes from one employer and giving them to another private-sector employer is not only illegal but is totally and completely unacceptable to the private sector. We do not feel that our private sector paid taxes should be used to benefit other private sector employers.

The rationale for our second recommendation is that the TJTC Program has been funded at the same level, $20 million, for the last 3 years, and this amount does not take into account inflation and the increased private sector support of this program.

We feel the proposed funding level fails to meet the program's needs and the needs of the targeted groups it is designed to serve. We recommend that an adequate funding level be developed, based on annual performance experiencing, both vouchering and certification, in combination with inflation factors.

The Senate amendments to the Tax Equity and Fiscal Responsibility Act of 1982 authorized $30 million annually for the TJTC Program and extended the program to include fiscal years 1983, 1984, and 1985, and we support this. The joint conference committee reduced the funding to $20 million and extended the program for only 2 years.

The TJTC Program is widely accepted and is continually gaining increased support in the private sector, and it should be adequately funded to meet the private sector demand. The TJTC utilization has increased 100 percent in the last 9 months, and, based on this current level of private sector acceptance, many State employment security agencies will exhaust their fiscal year 1984 TJTC funds by the end of April.

We in the private sector recognize and support your committee's dedication to reducing expenditures and our national debt, but we also ask you to consider increasing the administrative funding for the Targeted Jobs Tax Credit Program based on annual acceptance and inflation.

Our rationale for this recommendation is that the TJTC Program is not a welfare maintenance program but rather a program that removes persons from welfare and places them in self-supporting jobs which produce increased revenues for the Government in the form of taxes, and which return money to the economy.

The Employers' National Job Service Committee also recognizes the need for a TJTC appeal process. We feel this recommendation can be handled through changes in the administrative process, rather than by legislative changes. Specifically, this can be accomplished through the inclusion of an appeal process in the new TJTC regulations.

The Employers' National Job Service Committee thanks you for this opportunity to testify before your subcommittee and to share our private-sector concerns with you. We sincerely hope that you and your colleagues will give serious consideration to the two changes to the fiscal year 1985 targeted jobs tax credit reauthorization that we have proposed in this testimony.

Thank you.

Senator HEINZ. Mr. Goulder, thank you very much.

[Mr. Goulder's statement follows:]

EMPLOYERS' NATIONAL JOB SERVICE COMMITTEE TJTC TESTIMONY
ECONOMIC GROWTH, EMPLOYMENT AND REVENUE SHARING SUB COMMITTEE
SENATE COMMITTEE ON FINANCE
WASHINGTON, D.C.
MARCH 2, 1984

Mr. Chairman

My name is Robert F. Goulder.

I am: Manager Personnel Planning
Great Lakes Steel Division
National Steel Corporation
Detroit, Michigan

I also serve as Vice Chairperson-East of the Employers' National Job Service Committee and I am testifying in that capacity today.

The Employers' National Job Service Committee (ENJSC) is comprised of more than 22,000 private sector employers who are actively involved as volunteers in over 1,000 Job Service Employer Committees in all 50 States, 3 Territories and the District of Columbia giving in excess of 150,000 hours of volunteer time each month dedicated to the effective utilization of our private sector paid Federal Unemployment Tax, or FUTA Tax as it is better known.

These private sector paid FUTA taxes provide 97% of the cost of funding the United States Employment Service, or Job Service as it is known nationwide.

Our Employers' National Job Service Committee and regional, statewide and local Job Service Employer Committees, or the JSEC program as they are referred to, consist of Human Resources Directors, Personnel Managers and Employment and Training Supervisors.

President Reagan recently identified voluntarism as a major resource that can help make our country strong again. We employment and training professionals are dedicated to making this come true by mobilizing our nationwide volunteer organization and the wealth of knowledge and experience it encompasses to help the Job Service improve its delivery system and service capability to applicants and employers while helping to reduce unemployment.

The paramount objectives of the Employers' National Job Service Committee are to support local, state and regional Job Service Employer Committees by functioning at the national level to:

1. Maintain a dialogue with the U.S. Department of Labor and other appropriate agencies, organizations and individuals about private sector concerns in employment and training.

2. Coordinate employer efforts and the exchange of information.

3. Seek solutions and make recommendations concerning employment and training related problems in need of national attention.

On December 31, 1984, the current legislation authorizing the Targeted Job Tax Credit Program (TJTC) will expire. The President's proposed FY-85 budget acknowledges a support for the continuation of the TJTC program but with a major change and significant shortcoming which are of paramount concern to the private sector and to which I want to address my testimony this afternoon.

The Employers' National Job Service Committee and the Job Service Employer Committees nationwide recommend supporting the reauthorization of the TJTC program but with two modifications to the President's proposal or to Senator Heinz's Bill, S-2185, extending the TJTC program for five years.

1. Fund out of general revenues rather than from FUTA taxes.

2. Fund adequately by formula.

The Employers' National Job Service Committee supports Senator Heinz's 5 year extension of the TJTC program.

We recommend that the TJTC program continue to be funded out of general revenues as done in previous years rather than from our private sector FUTA taxes as specified in the President's proposed FY-85 budget.

It is our opinion that Title IX of the Social Security Act, which governs the use of FUTA taxes does not permit the expenditure of these resources for the TJTC program.

We feel that the taking of FUTA taxes from one employer and giving them to another private sector employer is not only illegal but is totally and completely unacceptable to the private sector. We do not feel that our tax revenues should be used to benefit other private sector employers.

The rationale for our second recommendation is that the TJTC program has been funded at the same level, 20 million dollars, for the last three years and this amount does not take into account inflation and the increased private sector support of this program. We feel the proposed funding level fails to meet the program's needs and the needs of the targeted groups it is designed to serve. We recommend that adequate funding levels be developed based on annual performance experiences (both vouchering and certification) in combination with inflation factors.

The Senate amendments to the Tax Equity and Fiscal Responsibility Act of 1982 authorized 30 million dollars annually for the TJTC program and extended the program to include fiscal years '83, '84 and '85. The Joint Conference Committee reduced the funding to 20 million dollars and extended the program for only two years.

The TJTC program is widely accepted and is continually gaining increased support in the private sector and should be adequately funded to meet the private sector demand. TJTC utilization has increased 100% in the last nine months and based on this current private sector level of acceptance many State Employment Security Agencies will exhaust their FY-84 TJTC funds by the end of April.

We in the private sector recognize and support your Committee's dedication to reducing expenditures and our national debt, but we also ask you to consider increasing the administrative funding for the TJTC program based on annual acceptance and inflation. Our rationale for this recommendation is that the TJTC program is not a welfare maintenance program but rather a program that removes persons from welfare and places them in self-supporting jobs which produce increased revenues for the Government in the form of taxes and return money to the economy.

The Employers' National Job Service Committee also recognizes the need for a TJTC appeal process. We feel this recommendation can be handled through changes in the administrative process rather than by legislative changes. Specifically, this can be accomplished through the inclusion of an appeal process in the new TJTC regulations.

The Employers' National Job Service Committee thanks you for this opportunity to testify before your Sub Committee and share our private sector concerns with you. We sincerely hope that you and your colleagues will give serious consideration to the two changes to the FY-85 Targeted Job Tax Credit reauthorization that we have proposed in this testimony. Thank you.

STATEMENT OF PHILIP P. SCHEPEL, PRESIDENT, K&S ASSOCIATES, INC., PERTH AMBOY, NJ

Mr. SCHEPEL. Thank you, Senator, for having me here today to testify on the Targeted Jobs Tax Credit Program.

I think everyone here has discussed all the benefits of the program. Our firm, which is in Perth Amboy, NJ, represents 200 employers around that region, including employers in your home State, Pennsylvania. Our clients, of course, support your legislation.

The State of New Jersey—I am not an official representative from that State; however, I have discussed your legislation with the Commissioner's office and the Department of Labor, and they also support your proposal for the 5-extension.

I want to give an example of an area that I think no one has discussed today. There is a Mr. Rick Kincaid who has conducted studies on TJTC at Brockport State university in New York, and he has found that 5 to 10 percent of the students at that university are eligible for TJTC. At that time they were also receiving financial aid. Last year he placed 2,700 students jobs during the summer and school year, which has cut the cost of financial aid for the university.

Senator Dole discussed that we have a budget deficit, but I think this is one way to help the university and I am sure that some of this financial aid is from the Federal Government.

There are two technical amendments that I urge you, Senator, to include in your legislation:

One is a 5-day grace period for certifications or written requests for certifications. It seems lately that all of the States, including employers and employee representatives, have been researching the U.S. Postal Service regulations, because there are many employers who hire individuals on the late shift, or let's say an employee comes to the job, and he or she has a voucher in his or her hand. The employer at that time must send the voucher on or before the day the individual begins work. Many small employers cannot do this. In fact, New York State denies 300 to 400 vouchers or certifications a month because of that rule. A 5-day grace period I don't think will open up retroactivity, but there should be some type of relaxation with that.

The last area is that the administration of the program has suffered. There is more employer participation, but the funds seem to decrease. The States have had difficulty working with the employers, and it has created ill-will in many instances between the employer and the State repesentatives, because the State cannot service the employer properly.

I would like to conclude that I support your legislation and hope it stays at 5 years.

[Mr. Schepel's prepared statement follows:]

SENATE FINANCE COMMITTEE HEARING ON THE TARGETED JOBS TAX CREDIT

MARCH 2, 1984

As President of K & S Associates, Inc., a management consulting firm that represents many private sector employers in the Targeted Jobs Tax Credit (TJTC) area, I would like to submit my testimony regarding Senator Heinz' proposed legislation S. 2185.

I urge the Senate Finance Committee to support the passage of Senator Heinz' proposed legislation. Furthermore, I also urge the committee to endorse the inclusion of two technical amendments to S. 2185. The two amendments that I propose for addition would be a provision which would allow for a five-day grace period for the timely filing of written requests for TJTC certification and a provision allowing for appropriation of additional funds for the effective administration of the program.

I urge you to endorse Senator Heinz' proposed five-year extension of the TJTC program for the following reasons:

I. The TJTC program offers far-reaching social and economic redeeming qualities which positively affect our society in general. These include the following:

   The Program...

   A. offers disadvantaged individuals in our society a better opportunity to find gainful employment,

   B. reduces the dependency of many individuals upon various federal, state and local government assistance programs for their support, and

   C. offers corporations tax saving incentives which can stimulate expansion and further accelerate additional hiring of TJTC eligible employees.

II. A five-year extension would be much more effective in achieving the goals of the program than would a shorter extension for the following reasons:

   A. More corporations would participate in the TJTC program if they knew that it would be in existence for five more years.

   B. Major corporations which normally require extended periods of time to make adjustments in their corporate practices would then be able to incorporate the hiring of targeted group members into their regular hiring practices.

C. Corporations would be able to favorably determine that the handicapped, Vietnam-era Veterans, disadvantaged youths and other targeted group members can meet their job requirements over an extended period of time and, subsequently, would hire many more of the same.

I further urge the Senate Finance Committee to endorse the inclusion of two technical amendments onto S. 2185. The two amendments that I would like to propose would provide for:

I. A five-day grace period for the timely filing of written requests for TJTC certification.

II. An additional appropriation of funds for the administration of the TJTC program.

The reasons why I urge you to support these proposed amendments are as follows:

1. In many instances, new employees begin working for corporations the same day that they are hired. When a written request for certification or a TJTC voucher is mailed for the new employee at the end of the day it very often is not postmarked by the U.S. Postal Service until the following day. Subsequently, the request for certification or voucher is ruled to have been sent untimely and no certification can be issued for the company's hiring of the new employee.

2. U.S. Postal Service postmarks are often illegible, and, subsequently, invalidate requests or vouchers that should be considered valid.

3. Companies that do not have postage meters cannot receive tax credits for their hiring of individuals late in the day or on their second shift since they cannot forward TJTC requests or vouchers to the appropriate agency on a timely basis.

4. A relaxation of the present timely filing requirements would eliminate many administrative problems that are currently being experienced by State Employment Security Agencies (SESA) and would facilitate greater utilization of the program.

5. Additional funding of the TJTC program would enable the SESA's to employ more individuals to promote and administrate the program. These additional SESA employees would subsequently voucher many more targeted group members, improve the state's economic climate and establish a better working relationship with the private sector.

Senator HEINZ. Just one question, Mr. Schepel.

Mr. SCHEPEL. Sure.

Senator HEINZ. On your 5-day grace period, it would seem to me that that would set us back into the kind of negus, vulnerable to the kind of criticism that was leveled at the pre-1981 program. How can we avoid that? We are sensitive to the problem of the Postal Service.

Mr. SCHEPEL. I myself have researched the U.S. Postal Regulations, and we have found instances where a postmark, is illegible, and the employer cannot receive the tax credit because the Postal Service has failed to postmark the envelope.

I don't think we will have a problem with retroactivity; this helps the smaller employers. They don't have the staff to send these letters or the voucher the day the individual begins work. They might have other work-related problems, and they might send it the next day. I am not looking for retroactivity; I am just hoping for some kind of reasonable solution to this problem.

Senator HEINZ. Thank you.

Mr. Giery.

STATEMENT OF WILLIAM G. GIERY, EXECUTIVE SECRETARY OF THE FOODSERVICE AND LODGING INSTITUTE

Mr. GIERY. My name is William Giery. I am executive secretary of the Foodservice and Lodging Institute, a trade industry group of 44 of the Nation's major multi-unit and multi-State hotel and restaurant companies. Collectively these 44 companies own, operate, or have franchise agreements with more than 55,000 individual restaurant establishments, and employ in excess of 3 million people. We welcome the opportunity be here this afternoon to testify in support of S. 2185, which would extend the targeted jobs tax credit.

The degree to which the institute supports the entire targeted jobs tax credit can best be illustrated by the fact that our board of directors has made passage of S. 2185 its No. 1 legislative priority, and by the fact that there a number of the institute members here today who gave separate testimony on how well the program is working in their own respective companies.

While we have the opportunity and the attention of the chairman, we wish to answer some of the critics of the program who are quick to say that targeted jobs tax credit is a mere windfall. The Targeted jobs tax credit does indeed affect our members' hiring decisions. Our members go to considerable time, expense, and effort to seek out eligible individuals from all seven categories. Many have hired in-house TJTC coordinators who travel about the country discussing with district, regional, and unit managers ways to increase TJTC utilization.

In managment training programs of our members, there are orientation sections on TJTC. Training materials are designed to recruit TJTC eligibles. Several companies motivate store managers to hire TJTC eligibles by providing cash bonuses for each eligible hired.

With strong, dedicated commitment from senior management officials, including in many instances presidents and chief executive officers of corporations, corporate training program for management personnel have been set up to include extensive discussion on TJTC. In several companies, members' companies have changed corporate hiring practices.

One company, which hired only persons over 18 years of age, changed their policy to include 16 and 17-year-olds and then created new jobs within their establishment for those young men and women.

On December 31, 1982, this company, which operated 640 restaurants in approximately 17 States, had hired only 120 TJTC eligibles. One year later, that number grew to 1,625 in 651 restaurants. Of those 1,625 eligibles hired, 230 were 16- and 17-year-olds.

As an industry, we have tried to fill the void created by the indifference of some Federal agencies mandated by Congress to administer the program, by instructing our members as well as nonmembers regarding methods to seek out eligible individuals. We have urged continuously over the past several years, as has the chairman of this subcommittee, for the Internal Revenue Service to finalize their proposed rules regarding application of TJTC. They are still not final.

Our members have spoken before industry and community groups, sharing with all of them our employment strategies with respect to TJTC. In furthering the program as a whole, our members have also been able to establish a closer rapport with community groups in areas where they have operations.

Several companies have developed cooperative agreements with community self-help groups and community organizations which work to develop job opportunities for the disadvantaged.

For the record, I have attached a statement of several of the organizations that we do business with.

Senator HEINZ. Without objection, it will be made a part of the record.

Mr. GIERY. In closing, I would just like to make a comment about the AFL-CIO and the detractors of TJTC in general: It is a quote from Heywood Broun, written in 1935. He said, "I have known people to stop and buy an apple on the corner, and then walk away as if they have solved the whole unemployment problem."

Thank you.

Senator HEINZ. Mr. Giery, thank you.

[Mr. Giery's prepared statement, with attachment, follow:]

TESTIMONY
OF THE
FOODSERVICE AND LODGING INSTITUTE
ON BILL H.R. 2185

To provide for a five-year
extension in the Targeted
Jobs Tax Credit

before the

Subcommittee on Economic Growth
Employment and Revenue Sharing
Committee on Finance
United States Senate

March 2, 1984

TESTIMONY
OF THE
FOODSERVICE AND LODGING INSTITUTE

Good afternoon, Mr. Chairman and members of the Subcommittee on Economic Growth, Employment and Revenue Sharing. We welcome the opportunity to be here this afternoon to testify in enthusiastic support of Bill S.2185, which would extend the Targeted Jobs Tax Credit for five additional years through 1989. The degree to which the Institute supports the entire Targeted Jobs Tax Credit can best be illustrated by the fact that our Board of Directors has made passage of Bill S.2185 as its number one legislative priority and by the fact that there are a number of the Institute's members here today to give separate testimony on how well the program is working in their respective companies. We will not attempt to duplicate their testimonies but, rather, will complement their presentations and present the views of our members in general.

My name is William G. Giery and I am Executive Secretary of the Foodservice and Lodging Institute, a trade industry group of 44 of the nation's major multi-unit and multi-state hotel and restaurant companies. Collectively, these 44 companies own, operate or have franchise agreements with more than 55 thousand individual establishments and employ in excess of three million persons. Every member of the Institute utilizes Targeted Jobs Tax Credit and for many, TJTC is given the highest priority in their hiring criteria. Like the Institute, the 44 members enthusiastically support passage of this legislation. We firmly believe that TJTC has been one of the most effective Federal Government programs to attack and combat structural unemployment. Since its inception in

1979, utilization has gotten better and better as more businesses have become aware of its existence. This is evidenced by the fact that for fiscal 1983, almost 1.3 million people were vouchered and 431,000 were certified; both figures were double the FY1982 levels. While we were pleased to learn that the Administration supports a further extension of the program we feel that a one year extension, as recommended in the Budget, is not enough. It is incumbent upon Congress to send a message to business and industry, as well as to those unemployed individuals who can benefit from the program, that TJTC will not be abandoned. A five-year extension, as provided for in this bill, would be that message.

The Institute has appeared before Congressional Committees on this issue a number of times on both sides of the Capitol and has supported TJTC ever since its inception in the 1978 Revenue Act. Despite the continued indifference of the Federal agencies which are supposed to administer the program, despite the red-tape erected in our efforts to obtain certification for eligible individuals, and despite the empty claims by detractors that the program is a mere windfall to employers, we still believe that the program is working and working well and deserves to be extended. If it is good for eligible employees, if it is good for employers, and if it is good for the federal government, then nobody suffers. We intend to prove that TJTC is good for all concerned. We also intend to show that TJTC creates jobs, that it is not a windfall to employers, and that Targeted Jobs Tax Credit has been successful in achieving the goal Congress set for it. That goal was to assist the structurally unemployed to find employment in the private sector. That is what TJTC has done.

> "The Committee believes it is appropriate to focus employment incentives on those individuals who have high unemployment rates and on other groups with special employment needs."
>
> House Report 95-1445

Background

The Targeted Jobs Tax Credit was enacted as part of the Revenue Act of 1978. Before its scheduled expiration on December 31, 1981, Congress revised TJTC and extended it for an additional year, as part of the Economic Recovery Act. Then, as part of the Tax Equity and Fiscal Responsibility Act of 1983, TJTC was again extended for two additional years. In each of these enactments, Congress also cleared up a number of controversial provisions which could have jeopardized continuation. We believe firmly that this fine tuning by Congress in the last three tax laws has made the program a better one. We believe firmly that, while responding to the concerns of members of Congress, these modifications have not only improved the overall functioning of the program but have also eliminated the stigma of the label "windfall". No longer is there retroactive certification; no longer can there be certification of eligible individuals after they've already been on the employer's payroll, and no longer can there be certification of persons who are not in need of an employment incentive in the private sector.

In addition to urging adoption of a five year extension, we urge the Congress to continue to fine tune the overall program, to continue to make modifications and to continue to respond to the concerns of critics and detractors.

THE TARGETED JOBS TAX CREDIT OFFERS A WAY OUT OF POVERTY FOR THE STRUCTURALLY UNEMPLOYED

The Targeted Jobs Tax Credit offers a road out of poverty and joblessness for persons who are economically disadvantaged and who lack the basic skills or experience to compete effectively on the job market. It removes a veil of discrimination by providing incentives to employers to take a chance they might not normally take in their hiring practices. It enhances jobs and career prospects for low income people and provides an incentive for employers to act according to self-interest while accomplishing Federal policy objectives.

> Dennis is thirty-seven years old and is slightly retarded. He was hired by Saga Corporation's Education Food Service Division at South Dakota State University in August of 1982 as a TJTC eligible. He had previously worked as a janitor in the CETA program and was hired by Saga as a janitor in the school's student union. He is now working as a storeroom supervisor and has gained self-confidence and has become a valuable employee. In moving up in position, he has also received regular salary increases. It is sad to say, but he had never ever received a pay raise before.

As part of our argument that TJTC offers a way out of poverty for the economically disadvantaged and the structurally unemployed we feel that, at this time, we must answer the critics who say that the turnover rate of TJTC eligibles is high and that the jobs eligibles fill are are dead end jobs with no future.

In the food service industry, the turnover rate among TJTC eligibles is no higher than our turnover rate for non-TJTC eligibles. That is not to say it is not high. We live with a high turnover rate; its a low wage industry and it is hard work but at least this industry offers non-skilled individuals a foothold; a place to start. We provide entry-level jobs. As with most businesses providing entry level jobs, we anticipate a high turnover rate but no one can say that those jobs are dead-end jobs because one cannot begin the climb up the economic ladder unless one is willing to take the first step.

> Dieusung Tran was one of the Vietnamese boat people, driven from his homeland, along with hundreds of thousands of Southeast Asian refugees following the communist takeover of Vietnam, Laos and Cambodia. Like many others, although well educated, his job opportunities were hampered, first because of language difficulties and also because of the economic climate in the United States at that time. Mr. Sung, a TJTC eligible, was hired by Saga Corporation to work at its food service facility at Seattle Pacific University in Seattle, Washington as a dish room person. While on the job, Mr. Sung also translated the company's safety information, emergency plans and safety incentives into Vietnamese for other workers. Mr. Sung no longer is employed by Saga Corporation. At present, he is a Teaching Assistant in Electronics at the college level.

To those detractors, we can only repeat what respected critic, the late Heywood Broun wrote in 1935:

> I have known people to stop and buy an apple on the corner and then walk away as if they had solved the whole unemployment problem.

With TJTC, we -- the employers and the Federal Government -- are doing something more. Can our detractors say the same?

Targeted Jobs Tax Credit also provides employers with an opportunity to work a little longer training people who are physically or mentally impaired.

> Steven Hielman is a recent hire of Straw Hat Pizza Corporation through the summer Targeted Jobs Tax Credit program. Steven has dyslexia which impairs his ability to read and, therefore, jeopardized his chances of getting a job. Because of the availability of the credit he was given the opportunity learn his job at a much slower pace allowing him to memorize the materials

required for his job. Such an opportunity could not have been afforded Steven had there been no TJTC.

If they want to stay on the job, there's a place for them.

> Rudolfo Padilla is a Targeted Jobs Tax Credit "graduate." The 27 year old has been employed by the Saga Corporation since July 28, 1980 working in a food service occupation at the Industrial Indemnity Corporation's home office in San Francisco. Rudy was referred to Saga by the Goodwill Industries after completing their food service training program and gaining the necessary skills to become a full-time employee. Prior to his participation in the Goodwill program, he had participated in two other training programs sponsored by the California Department of Rehabilitation but both failed to provide subsequent employment. Prior to being employed at Industrial Indemnity, Rudy had been unemployed for more than two years.

There are many "TJTC graduates" who have gained enough part-time work experience while students in cooperative education programs to become productive full time employees.

> The University of Wisconsin - Oshkosh participates in a Cooperative Education and Work Experience Program through three high schools in Oshkosh. Marie Miller was employed as a student in the co-op program from September 1979 until June 1980. When she graduated from high school, she filled out a regular application and as soon as an opening occurred in April 1981, she was hired full time. During this interim she continued as a part time employee dividing her time between work and taking additional courses at Fox Valley Technical School. Marie worked as a line server for two years and has just signed for a cook's job. She has progressed rapidly in training as a cook, according to her supervisors, because of her previous training as a cook's aide while still a TJTC eligible.

EXPLODING SOME MYTHS ABOUT TARGETED JOBS TAX CREDIT UTILIZATION BY BUSINESS

While we have the opportunity and the attention of the members of this distinguished Committee, we wish to answer some of the critics of this program who are quick to say that Targeted Jobs Tax Credit is a mere "windfall" to employers; that employers are obtaining tax credits for hiring persons they would have hired had the credit not existed.

The Targeted Jobs Tax Credit does indeed affect our members' hiring decisions. Our members go to considerable time, expense and effort to seek out eligible individuals from all seven categories. Many have hired in-house TJTC coordinators who travel about the country discussing with district, regional and unit managers ways to increase TJTC utilization. In management training programs of our members, there are orientation sections on TJTC. Training materials are designed to recruit TJTC eligibles. Several companies motivate store managers to hire TJTC eligibles by providing cash bonuses for each eligible hired.

With strong, dedicated commitments from senior management officials, including, in some instances, presidents and chief executive officers, corporate training programs for management personnel have been set up to include extensive discussion on TJTC. In several instances, member companies have changed corporate hiring policies -- one company which hired only persons over 18 years of age changed that policy to include 16 and 17 year olds and then created new jobs within their establishments for 16 and 17 year olds to fill. On December 31, 1982, this company which operated

640 restaurants in approximately 17 states had hired only 120 TJTC eligibles. One year later, that number grew to 1,625 in 651 restaurants. Of those 1,625 eligibles hired, 230 were 16 and 17 year olds.

As an industry, we have tried to fill the void created by the indifference of Federal agencies mandated by Congress to administer the program by instructing our members, as well as non-members regarding methods to seek out eligible individuals. We have urged continuously over the past several years, as has the Chairman of this Subcommittee, for the Internal Revenue Service to finalize their proposed rules regarding application of TJTC. They are still not final. Our members have spoken before industry and community groups sharing with all of them our employment strategies with respect to TJTC.

In furthering the TJTC program as a whole, our members have also been able to develop a closer rapport with community groups in areas where they have operations. Several companies have developed cooperative agreements with community self-help groups and community organizations which work to develop job opportunities for disadvantaged individuals.

For the record, I have attached to this statement a list of several of the organizations with whom our members have been working. This list is, by no means, complete, rather it represents a cross-section of representative-type groups.

Our members and the Institute put a great deal of work into making TJTC work and we urge that this legislation be favorably considered.

Another myth that has been allowed to fester is that the Targeted Jobs Tax Credit is a drain on the Treasury. If this is so, then TJTC is as much a drain on the Treasury as accelerated depreciation, investment tax credits, energy tax credits, etc. The difference between those credits and Targeted Jobs Tax Credit is that the latter is an investment in human capital. It is to labor intensive industries exactly what investment tax credit is to capital intensive industries. If I buy a machine that puts people out of work, the Federal Government will allow me to write off that machine in five years to I can buy more machines to put more people out of work.

Lets turn to what Targeted Jobs Tax Credit means in terms of government expenditures. When Targeted Jobs Tax Credit was last extended for two years by the Tax Equity and Fiscal Responsibility Act, the Treasury estimated that it would cost the Government $182 million in 1983 and a total of $1,649 billion over five years through 1987. What this does not take into account is revenue gain through receipt of Federal income taxes from the TJTC eligible hired, the payment of FICA taxes, FUTA taxes, the elimination of state and local assistance payments, etc.

Take an out-of-work individual, married with one child and give him a job through the TJTC making $15,000 a year. At the end of one year, the company for whom he went to work is able to claim a tax credit of $3,000. Since the deduction of wages is reduced by that amount, the credit in the employer's taxes for hiring this individual is about $900 (for an employer in a 70% tax bracket).

Before the hiring, all money transactions with that person by government were outlays -- unemployment insurance, AFDC payments, state and local welfare payments.

After the hiring, the transactions are, for the most part, reversed, the Federal Government receives $1,242 in estimated federal income tax withholding, a total of $2,010 in combined employer-employee Social Security Tax and $245 in Federal unemployment tax.

There are revenue gains and those gains make the entire program cost effective, probably the most cost-effective program within the federal government for creating employment. Dollar for dollar, it is the best vehicle available for reducing unemployment and the most effective manner to utilize tax expenditures for the creation of jobs because it stimulates employment without accelerating inflation.

We sincerely hope that this Committee and the Congress will extend the entire program for five additional years. The five-year extension is absolutely essential if Targeted Jobs Tax Credit is to accomplish what it is intended to do. As we have seen in the past, there was a substantial reduction in utilization during the final year of the program each time it was due to expire. Businesses that want to become involved with the program on a full scale basis are apprehensive about spending the time, money and resources necessary when they believe the program will expire. A five year extension will send those businesses a message that Congress will not let the program die.

We would be happy to answer any question you may have.

ATTACHMENT

COMMUNITY SELF-HELP GROUPS WITH WHOM FLI MEMBERS HAVE WORKED TO DEVELOP JOB OPPORTUNITIES FOR DISADVANTAGED INDIVIDUALS

- Goodwill Industries, San Francisco, CA
- YMCA Refugee Job Service, San Francisco, CA
- Chinatown Resource Development Center, San Francisco, CA
- Center for Southeast Asian Refugee Settlement, San Francisco, CA
- Mayor's Committee for the Employment of the Handicapped, San Francisco, CA
- Mount Diablo Rehabilitation Services, Pleasant Hills, CA
- Greater Washington Board of Trade, Washington, D.C.
- AFL-CIO Appalachian Council, Charleston, W.Va.
- Alcohol Rehabilitation Center, State of Maryland
- Project Breakthrough (Parole/Probation), State of Maryland
- New England Association of Business, Industry and Rehabilitation, Woodbridge, CT
- Ability Center of DATAHR, Inc., Danbury, CT
- The Constructive Workshops, New Britain, CT
- Easter Seal Community Job Shop, Waterbury, CT
- Easter Seal Goodwill Industry, New Haven, CT
- Easter Seal Rehabilitation Center in Norwich, Stanford, Bridgeport, and Hartford, CT
- Divisions of Vocational Rehabilitation in Hartford, Waterbury and Bridgeport, CT
- WIN Programs in Bridgeport, Bristol, Hartford, Meriden and Manchester, CT
- Parents and Friends of Retarded Citizens, Bridgeport, CT
- Respond Inc., New Haven, CT
- Urban League of Greater New Haven, New Haven, CT
- Aces Academy, Hamden, CT
- Association of Retarded Citizens, Hartford, CT
- Minority Employment Program, Springfield, MA
- Springfield Urban League, Springfield, MA
- New England Farm Workers Council, Springfield, MA
- New England Farm Workers Council, Holyoke, MA
- Welfare Service Office, Westfield, MA
- Welfare Service Office, Greenfield, MA
- Employment Training Program, Holyoke, MA
- Welfare Service Office, Springfield, MA
- Welfare Service Office, Pittsfield, MA
- Private Sector Summer Jobs Program, Springfield, MA
- Incentive Community Enterprises Inc., Northhampton, MA
- Career Development Services, West Springfield, MA
- Prospect House, Worcester, MA
- Opportunities Industrialization Center, Boston, MA
- Jobs for Youth - Boston, Inc., Boston, MA
- Cornerstone House, Boston, MA
- Urban League of Eastern Mass., Boston MA
- Job Matching Center, Waltham, MA
- Association for Retarded Citizens, Waltham, MA

- Center for Occupational Awareness, Chelmsford, MA
- East Middlesex Industries, Stoneham, MA
- Project Triangle, Inc., Malden, MA
- Unitas, Inc., Lowell, MA
- N.A.A.C.P., Hyannis, MA
- Cape Cod Tech, Harwich, MA
- Jobs for Bay State Graduates, Taunton, MA
- Pride Workshop, Cambridge, MA
- New Bedford Consortium, New Bedford, MA
- National Research & Demonstration Institute, Waltham, MA
- Alcohol Rehabilitation Center, Jackson, MS
- Vocational Rehabilitation Center, Norfolk, VA
- Ohio Rehabilitation Services Commission, Dayton, OH
- Work Release Program, Columbia, SC
- Work Release Program, Florence, SC
- Goodwill Industries of North Florida, Jacksonville, FL
- Roosevelt Warm Springs Institute for Rehabilitation, Warm Springs, GA
- Learning Skills, Houston, TX
- The Rehabilitation Institute, St. James, NY
- New York State Commission for the Blind and Visually Handicapped, Hempstead, NY
- Nassau County Probation Dept., Mineola, NY
- Suffolk Assn. for Children with Learning Disabilities, Dix Hills, NY
- The Friendship House, Hackensack, NJ
- Community Mental Health Operations, Palerson, NJ
- Urban League of Westchester County, White Plains, NY
- Urban Leagues of Englewood, Moorestown, and Newark, NJ
- Farm Worker Opportunity, Allentown, PA

Senator HEINZ. I feel I have asked every question that I could think up. Are there any answers you would like to provide for any questions I haven't asked?

Mr. GOULDER. I would like to follow up on a question you asked earlier.

I think the TJTC Program does introduce people to the work ethic that would not otherwise have gotten jobs. I think this is very important. I think this is more important than getting them into a higher priced job. Once they are introduced to this work ethic, I think they are well on the way toward useful, gainful employment and higher paying jobs. This bill does do that.

Senator HEINZ. Thank you.

Any other comments?

[No response.]

Senator HEINZ. If not, I want to thank you all for being patient here. One of the hardest things to do is to be last. And I thank you for your excellent contributions.

The hearing is adjourned.

[The prepared statement of Dr. Lee Bowes Freemont-Smith follows:]

TESTIMONY TO SENATE FINANCE COMMITTEE
Dr. Lee Bowes Fremont-Smith

3/1/84

My name is Lee Fremont-Smith. I am here in support of Senate Bill 2185. I am President of Transitional Employment Enterprises, Inc. (TEE), a non-profit agency under contract with 125 private firms in Massachusetts and New Hampshire. Over the past 10 years, private companies have hired from us 3,000 workers who were on welfare, handicapped, labeled mentally retarded, and over fifty-five years of age. The private corporations have paid for 40% of the program -- money that otherwise would have been taxpayers' dollars. We have used the Targeted Jobs Tax Credit (TJTC) successfully and in a useful, instructive way. During the past two years, I conducted a study which is now part of a forthcoming book entitled, No One Need Apply. This study explores how and why government-sponsored employment programs work and what can be done to those that don't work. TJTC was a critical part of this study.

I am going to convey four points to you. First, I will tell you some facts about TJTC from my hands-on experience with private companies and give you data from my study. Second, I will give you an analysis of why TJTC hasn't worked. Third, I will tell you how it can work. Fourth, you will be told why it is important to support Senate Bill 2185. I will tell you when I begin and end each point so that you will know where I am in the discussion.

I am now beginning point number one: Facts about TJTC. We used TJTC as part of a comprehensive package which is marketed to private companies. I am holding up this bright brochure which we use to sell the program. As you can see, one of the questions we ask employers is: "Do you make use of tax credits?" This brochure was designed and is marketed as a private corporation sells a new product to customers. Let me explain how it works, with a specific example at Digital Equipment Corporation (DEC). DEC, located in Maynard, Massachusetts, had a need to hire skilled word processing secretaries and wanted to increase minority hiring. They also had 100 jobs open. TEE negotiated to train women on welfare to type 55 words-per-minute if DEC provided word processing training in their training department. Anyone completing the training would start on TEE's payroll working in regular jobs at the DEC plant. TEE provides transportation from the inner-city of Boston, back-up support services and an on-site representative to facilitate the transition into full-time work.

While the women are working at DEC, TEE receives $7.50 an hour from DEC and, in turn, pays the worker. For each worker DEC hires, TEE processes the TJTC paperwork for the company, through the Division of Employment Security (DES). In addition, TEE has begun to facilitate the TJTC system for other workers DEC hires.

Now, to the study's findings. In a stratified random sample of employers around Boston, it was found that only 24% of the firms had ever used TJTC and of these half used outside firms to process TJTC. Of those not participating, 39% thought the rules and paperwork were too complicated. The remaining 36% were unaware of the program or thought they didn't have a situation that warranted using it since their tax bracket was so low.

These findings are in keeping with studies conducted by the Congressional Budget Office and Brandeis University which found, in general, employers were unwilling to participate in the program.

I have now finished point one in which I gave you facts about TJTC and will go on to point two: Why the Program Hasn't Worked. I quote from a company interview.

> It's difficult to get a person to declare himself handicapped, disadvantaged or unemployed at the time of application. Then there is difficulty sending them over to DES to be certified. What if they don't work out? Then you could be liable because they think it is because of their problems. We don't have the services to help them.

This quote illustrates employer problems. They are afraid of asking sensitive questions which may be used as a way to reject the worker before or during a hire. Also they don't want to be directly involved with the government. DES, which is responsible for processing TJTC, is a regulatory arm of government around employee issues. In my study, I found the culture of distrust of business toward government to be so great that many employers, despite cost savings, would rather not deal with the government. Finally, without a back-up program of support and training, employers are afraid of hiring and firing people who need transitional training and support to be successful.

Other employers were shocked to hear of the program. A surprising number (36%) were not aware of TJTC. Some feel this is because the Employment Service, which is responsible for processing the forms, has not developed a relationship with businesses or has had a negative experience with that business in the past.

Finally, TJTC assumes hiring decisions are made by employers on objective criteria, such as skill level, or cost of training or employment cost. In my study, I found that even in entry-level positions employers make hiring decisions based on networks. It is who you know, not what you know. Interviews and tests are inadequate to determine how a person will do on the job. And in the growing service sector, it is social skills, not technical skills, that matter. Referrals from friends or other workers are safe bets for having those social skills. From a company's perspective, this "hiring by wiring" is rational -- it works. From the person TJTC is designed to target, cost-savings to an employer is not enough to overcome the formidable barriers.

This is the end of my second point on why the program hasn't worked well. I will now present point three: How the Program Can Work Effectively.

There are a few lessons which can be learned from business about how to introduce a new product into the marketplace which are helpful in implementing TJTC. These techniques theoretically are contained in the concepts of innovation, adoption and diffusion. TJTC is a government innovation designed to stimulate demand on the part of business for workers they otherwise would not hire. By getting these people jobs, the government should lower the cost of dependency payments and, therefore, save money. By lowering labor costs, business should be stimulated, hopefully, to hire more workers. To get TJTC adopted by companies, the government needs to understand that innovation and change is antithetical to organizations' normal behavior. People and organizations do not like to change. Government can not assume a bread upon water approach of throwing a program out there without a campaign to get it adopted. This can include cost effectiveness data, pay-back information, and time-efficiency data for business. Documentation of case sutdies in well-known companies is effective. Diffusion of the innovation can be facilitated through communication, and the use of well-known opinion leaders who have made the program work for them. Also a reward system which recognizes certain businesses or individuals for their outstanding work would help market the program to new businesses.

Another aspect of making the program work effectively is using outside agencies, intermediaries, which are not viewed as government but are or appear to be businesses marketing the program to other businesses. This is the case with my organization, TEE, which is seen by the companies we work with as a business. Finally, packaging TJTC as part of a comprehensive set of services for the workers and business will allow the workers to overcome the formidable barriers that exist to getting a job. The program becomes their network -- and trains and supports them in their first months of work, giving them a better chance of success and business a better view of TJTC's benefits.

Point three, how to make it work, is concluded. I am now on the final point (four): Why I Support the Extension of TJTC.

It constantly surprises me how quickly we become complacent about employment levels when the level is going down. Unemployment at 8% has been enough to get politicians thrown out of office when it is rising. Right now, however, compared to the 10.8% a little over a year ago, we feel that we are in great shape. We are not. There are still millions of people who want and need jobs, especially the severely disadvantaged people TJTC is designed to help.

TJTC is a program that can be effective. I know that Secretary Donovan has proposed to market TJTC. This is already beginning to be effective. This should be the first step in tying TJTC into a comprehensive program of training, placement and support.

Part of the reason business has a negative view of government is that government policies come and go. It is difficult to re-arrange a business to work with a new program when you know tomorrow it may be gone. TJTC is beginning to be adopted by business. It would be a setback to throw out this program and reinforce the distrust business feels toward government.

Finally, I believe that without TJTC there are women on welfare, people who are handicapped, and others who will not get jobs. There are no other direct employment incentives available. Without TJTC, the country will lose a much needed public-private partnership.

[Whereupon, at 5:01 p.m., the hearing was concluded.]

[By direction of the chairman the following communications were made a part of the hearing record:]

STATEMENT BY THE
AMERICAN HOTEL & MOTEL ASSOCIATION
before the
SENATE FINANCE ECONOMIC GROWTH AND EMPLOYMENT SUBCOMMITTEE
on
TARGETED JOBS TAX CREDIT
(S 2185)

American Hotel & Motel Association
1819 L Street, NW, Suite 600
Washington, DC 20036
(202) 223-6872

March 2, 1984

The American Hotel & Motel Association is a federation of hotel and motel associations located in the fifty states, the District of Columbia, Puerto Rico and the Virgin Islands, having a membership in excess of 8,500 hotels and motels accounting for over one million rentable rooms. Inclusive in our membership are all of the major hotel and motel chains.

The hotel/motel industry considers the targeted jobs tax credit an effective stimulus in the hiring of the people in the various targeted groups. The credit encourages our industry to hire more people, and specifically to hire those who often have difficulty entering into a career. The tax credit benefits our companies, benefits the country, and helps the people who are hired.

It is important that the credit be extended for five years so that our companies can plan and predict their hiring practices. This tax credit is the perfect catalyst to get private industry involved in helping unemployed youths and others to become part of the job market.

Consequently, we support, S. 2185, Senator Heinz's bill to extend the credit through 1990.

To put the tax credit into some perspective, the following are some excerpts on employment in the lodging industry as discussed in a study on the lodging industry conducted by the national accounting firm of Laventhol & Horwath and completed in July, 1982.

The average annual rate of increase in employment in the lodging industry from 1977 to 1981 was 4.2 percent, according to the U.S. Bureau of Labor Statistics. The same source estimates the average number of employees in the lodging industry during 1981 was 1,075,700. The number of production or non-supervisory positions was 984,900 or almost 92 percent of all workers. The following breakdown, by job category, emphasizes the high percentage of semi-skilled and unskilled workers in this industry.

1981 Estimated Lodging Industry Employment by Job Category

Job Category	Number of Employees	Percent of Total
Professionals and managers	86,000	8%
Sales and clericals	172,100	16
Production and maintenance	75,300	7
Service:		
Housekeeping	301,200	28
Food and beverage	387,300	36
Other	53,800	5
Total	1,075,700	100%

Source: U.S. Bureau of Labor Statistics

Lodging industry operators have cited labor costs as one of the industry's fastest growing expenses. Total industry wages were approximately $8.3 billion, or 28.6 percent of total revenues, in 1981. A major factor contributing to these escalating costs has been average hourly earnings which increased at an average annual rate of 10.0 percent from 1977 to 1981.

To counteract wage increases, employers have hired employees at a less rapid pace. Lodging industry employment increased at an average annual rate of 4.2 percent, from 1977 to 1981. Another practice has been to hire more part-time workers.

Statistics which reflect employment trends are summarized below:

Lodging Industry Employment and Wages 1977-1981

Category	1977	1981	Annual Average increase
Number of employees	913,000	1,075,700	4.2%
Average hourly earnings	$3.31	$4.85	10.0
Average weekly hours/ employee	31.2	30.6	(.5)
Average weekly earnings/ employee	$103	$148	9.5
Total industry wages	$4.903 billion	$8.302 billion	14.1

Source: U.S. Bureau of Labor Statistics

The statistics show the high cost of labor in the industry and, consequently, emphasizes the importance of the tax credit as a hiring stimulus.

The targeted jobs tax credit is utilized by many hotel/motel companies. The credit is a simple mechanism and has been proven effective. We urge you to support S. 2185 and to extend the targeted jobs tax credit.

STATEMENT BEFORE THE SENATE BUDGET & TAXATION COMMITTEE

BY HAROLD O'FLAHERTY

REPRESENTING INVESTORS MANAGEMENT CORPORATION

OF RALEIGH, NORTH CAROLINA

Investors Management Corporation is a leader in the food service industry. I'm here today representing this company to urge the Congress of the United States, today the Senate of the United States, to pass legislation which will continue the Targeted Jobs Tax Credit Program.

The Targeted Jobs Tax Credit Program offers a very viable partnership between government and the private sector. The implementation of the legislation has made it clear that government and the private sector can work reasonably together for the mutual aggrandizement of those who are traditionally underserved in our population. The program fosters the concept that individuals should be tax payers rather than tax consumers. This philosophy focuses upon the dignity, worth and contribution of the individual; in essence, democracy is about the personal liberation of the individual in order that he or she might architect his or her own destiny.

The Targeted Jobs Tax Credit Program has made it possible for individuals to go to work and to support themselves. Many hundreds of thousands of people have been taken off the welfare rolls and have been made tax payers.

The key factor in making the Targeted Jobs Tax Credit Program a success is that an incentive has been provided to the private sector to hire individuals who are unskilled and provide them an opportunity for both gainful employment and training. The $3000 tax credit per individual provides an incentive to employers to take the risk of hiring those who have been hard to maintain on the employment rolls. The special incentive, i.e. 85% of the first $6000 earned, is made available to employers to hire underserved youth, 16 and 17 years of age, particularly in the summertime. This option of the program keeps high-energy type individuals off the street and in a more structured environment so that they indeed have the opportunity of making a personal and societal contribution.

Those opposing the continuance of the legislation state that the Targeted Jobs Tax Credit Program will cost the government a billion dollars over the next three years. We submit that, if 100,000 persons are maintained through federal relief programs who could be hired under TJTCP the cost to the federal government will be in the neighborhood of 800 million dollars a year, or 2.4 billion dollars over three years, or 4 billion dollars over five years. These numbers suggest that "the juice is worth the squeeze".

My company, Investors Management Corporation, wholly owns several major restaurant chains. Principal among these is the Golden Corral Family Steak House. We will be taking forthright steps to train our partner/managers in the ramifications and strategies of implementing the Targeted Jobs Tax Credit Program in order that many of the 2800 new hires will be certified under this program. This certification offers a tax benefit to my company, but more importantly, a new work opportunity for an individual who is in need and who is interested in taking advantage of the best that the American dream has to offer.

In conclusion, let me state on a personal basis that no one in this room appreciates more the opportunity to work than I. I am blind. The fact of life I always feared was that I would never find an opportunity for gainful employment when becoming an adult. I've had a wonderful career both as a Federal civil servant in Washington, as well as a private consultant. These opportunities make it absolutely clear to me that the creative partnership, which must be in place if we are going to reduce unemployment, between Washington and corporate America is best represented by the potential implicit in the Targeted Jobs Tax Credit Program.

I thank you for the opportunity of sharing these comments before your outstanding committee.

UNITED STATES SENATE COMMITTEE ON FINANCE
SUBCOMMITTEE ON ECONOMIC GROWTH, EMPLOYMENT
AND REVENUE SHARING.

S. 2185 Extension of the Targeted Jobs
Tax Credit

Statement of Grant R. Sykes, Institute for
the Study and Encouragement of Common
Sense Economics

March 2, 1984 Room SD 215
Dirksen Building

I am happy to make the views of the Institute known on S. 2185.

It was only a short time ago that the Senate Finance Committee posed the Question "Can efforts to reduce the budget deficit be postponed?" The overwhelming response was No. Currently a bi-partisan group is supposed to be searching for means to reduce the deficit.

Now, if the Senate Finance Committee and other partisans bewailing the growth of the budget are serious, then S. 2185 is a good place to begin. The jobs tax credit is not a job creating measure; it is just one more tax loophole that should be plugged. The jobs tax credit to the contrary encourages longer periods of feeding at the unemployment trough. In fact it would be less costly to replace unemployment insurance with Public Works type jobs than to continue the present dole system. S. 2185 will encourage employers to favor employment of lazy workers over ambitious ones. It is a tax loophole generated by misguided, phoney sympathies propagated by a self-serving handful hoping to escape paying their fair share of the tax burden by pushing it on others. These flagrant tax loopholes must be curtailed NOW.

Thank you very much.

Grant R. Sykes

STATEMENT OF

THE INTERSTATE CONFERENCE OF EMPLOYMENT SECURITY AGENCIES, INC.

BEFORE THE

SENATE FINANCE COMMITTEE

ON ECONOMIC GROWTH, EMPLOYMENT AND REVENUE SHARING

ON

EXTENSION OF THE TARGETED JOBS TAX CREDIT

MARCH 1984

Interstate Conference of
Employment Security Agencies, Inc.
March , 1984

Mr. Chairman, we appreciate the opportunity to have our statement included as part of the written record in association with the hearing that you sponsored on March 2, 1984, regarding the Targeted Jobs Tax Credit (TJTC). The Interstate Conference of Employment Security Agencies, Inc. (ICESA), is composed of Administrators of the State Unemployment Insurance and Employment Service programs in the 50 states, the District of Columbia, Puerto Rico and the Virgin Islands. Because it is the State Employment Security Agencies (SESAs) which are statutorily designated to issue the TJTC certification, and, therefore, administer the statewide program, we believe we are in a unique position to comment on your measure (S.2185).

As you well know, the TJTC Program did not always enjoy the success which now characterizes the Program. The first full year of operation, 1979, was a difficult one in terms of establishing state operations and procedures, but particularly in educating employers about the credit. Our Federal partners in this major effort, the Department of Labor and Internal Revenue Service, were slow to develop and distribute supporting publicity, and much of the material that finally made its way to the states was not effective. The State Employment Security Agencies modified a great many of the federally developed products and, in a substantial number of states, developed alternatives--often at their own expense. By 1980, the Program began to take hold despite a slow start, several administrative changes, and uncertainty on the part of the private sector as to the life of the Program.

Figures released by the U.S. Department of Labor (enclosed) for fiscal year 1983 reveal over a 100% increase in both the issuance of certifications and vouchers from FY 1982. Probably of equal importance is the fact that every target group shared in this impressive gain; it was not due to the recent addition of economically disadvantaged summer youth, as many had predicted. We can say with confidence that employers have accepted this Program and are participating at unprecedented levels. We see, first hand, that the target groups are having opportunities open to them where few existed in the past. The Targeted Jobs Tax Credit Program has helped these individuals overcome substantial barriers to employment, and the purpose behind the Program is being met. The Interstate Conference supports the reauthorization of the tax credit without any legislative changes, as outlined in S.2185. The extension through 1989 will provide greater stability to the Program, increasing employer confidence and involvement. However, there is one significant issue that has been ignored by the Administration and not sufficiently addressed in appropriation measures--the provision of adequate administrative funds.

As mentioned previously, the Program has finally taken hold after years of struggle and underutilization, and we now have results that show a doubling in size between 1982 and 1983. The success of the Program is surely attributable to the many groups that serve the eligible clientele as well as to the various business organizations which assisted in promoting the credit among their members. But we contend there is an unsung hero among these groups--the statutorily designated State Employment Security Agencies. Despite the increased popularity and use of the TJTC

Program, the SESAs have had to manage with the same $20M level over the last three years. The rate of Program expansion in FY 1984 will, in most states, result in the complete expenditure of administrative funds within the next 60 days. As has been the case in the past, the SESAs will forced to utilize scarce resources within their basic operating grant which is provided to run this nation's labor exchange system. We wish to emphasize that over the last three years, this basic grant has been reduced by approximately 25%, resulting in the closure of an estimated 500 local offices and the loss of over 7,000 employment security staff. You can understand, therefore, our deep concern for securing adequate administrative resources for the TJTC Program.

There has been a great deal of discussion concerning the doubling of certifications issued from FY 1982 to FY 1983. However, this is only one part of the administrative process that accounts for the costs of successful program operations. The more significant outlay is attributable to vouchering, which in FY 1983 increased to 1,286,947 from an amount less than half this size in FY 1982. The actual certification issuance process administered by the SESAs involves only one form and is relatively short in duration. Vouchering, on the other hand, requires that SESA staff spend an average of 30 minutes with each applicant and requires the completion of two forms including substantial verification in many instances. The majority of administrative costs, therefore, are associated with the vouchering process.

In testimony before the Congress last year, we asked for a total of $40M in TJTC administrative funding. Based on our analysis of Program utilization for the first quarter of the current fiscal year, and in anticipation of the continued success of the special disadvantaged summer youth category, we estimate that the SESAs will require a minimum of $45M to adequately administer the Program in FY 1985. In addition, we would encourage your Subcommittee to work with the Administration in developing an allocation methodology that is primarily based on the number of eligible clients, but also takes into account productivity.

A related issue that we want to bring to your attention concerns the Administration's plan to change the source of TJTC administrative funding from general revenues to FUTA (Federal Unemployment Tax Act). First, we question the legality of using FUTA funds for this purpose and encourage the Subcommittee to seek an answer to this specific issue. But even more importantly, we strongly object to this change because of the limited FUTA resources which are, by statute, targeted for the Unemployment Insurance and Employment Service Programs. If sanctioned by the Congress, this would be yet another drain on the FUTA funded Employment Security Administration account, proposed by the Administration.

This concludes our statement for the record. On behalf of the members of the Interstate Conference of Employment Security Agencies, Inc., we appreciate the opportunity to present our views on the Targeted Jobs Tax Credit and pledge to you and your Subcommittee our continued support.

TARGETED JOBS TAX CREDIT PROGRAM
VOUCHERS AND CERTIFICATIONS BY TARGET GROUP
FISCAL YEAR 1983

	YOUTH		VETS		EX-CON		HNDCP		CETA		GEN ASST		SSI		AFDC		TOTAL	
	VOU	CER	VOU	CER	VOU	CER	VOU	CER	VOU	CER	VOU	CER	VOU	CER	VOU	CER	VOU	CER
TOT	581795	259309	80808	24141	94545	21929	78683	25412	1130	383	65169	14480	3115	1254	294394	50736	1286947	431182
I	27470	11808	3820	1165	2823	987	3965	1469	40	12	3847	1125	389	179	17927	3667	64121	22400
II	58486	24491	7723	1722	4724	1406	6329	1700	373	70	21959	3338	412	146	33989	4486	140627	39402
III	46247	19152	6775	1759	7152	2343	8331	2482	73	15	11597	3391	239	129	29738	4966	115786	36776
IV	131638	65314	13834	5206	44369	8656	17528	6048	116	61	866	38	389	142	56537	8788	280543	102018
V	110225	41108	20211	4880	12337	2511	17895	5208	270	71	22421	5179	693	253	59337	10044	266254	77179
VI	65677	34573	5285	2310	5680	1564	6623	2308	112	94	308	136	276	124	19430	4498	115843	49072
VII	44200	15653	6559	1740	5083	1386	5495	1796	47	19	1511	404	173	44	9937	2356	79539	25568
VIII	14895	7850	2415	913	1369	552	2261	1030	0	0	475	147	68	36	4869	1782	28003	13154
IX	51139	26024	6403	2353	6839	1594	5888	2029	48	27	1735	626	318	128	50523	7109	130493	43098
X	31818	13336	7783	2093	4169	930	4368	1342	51	14	450	96	158	73	13007	3040	65738	22515

NOTE: Data for Economic Eligibility Determinations made for youth enrolled in Cooperative Education programs are shown in the second portion of this report. The number reported cannot be equated with Certifications actually issued by participating schools and is not, therefore, included in the totals shown. Also shown in the second portion of this report are Vouchers and Certifications for Summer Youth. These figures are included in the totals shown.

REPORT PREPARED THE USES OFFICE OF PLANNING AND REVIEW, DECEMBER 27, 1983

JOB
SERVICE
OF IOWA

Terry E. Branstad, Governor
Richard G. Freeman, Acting Director

Iowa Department of Job Service
1000 East Grand Avenue, Des Moines, Iowa 50319
Phone: (515) 281-5387

February 23, 1984

Roderick DeArment, Chief Counsel
Committee on Finance
Room SD-219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. DeArment:

DATE OF HEARING - March 2, 1984

SUBJECT OF HEARING - Targeted Jobs Tax Credit Extension

We support the Targeted Jobs Tax Credit extension as proposed in Press Release No. 84-118. This program has provided many employment opportunities for people who would have remained unemployed without such a program.

To make the tax credit even more attractive to industry, there should be a realization that the current requirements on timeliness be relaxed. Many areas of this state have poor mail service. It is absolutely unfair and detrimental to the poor, to refuse tax credits because the postmark is a day late. In many Iowa Communities the mail is picked up once a day (evening) and trucked many miles to a larger post office, then postmarked with the next day's stamp.

The employer mailed it timely but the postal system stamped the envelope untimely. It would be advisable to allow the state Job Service agencies some small amount of latitude in approving timeliness. The employers deserve a fair deal that is not dependent on the postal system's idiosyncrasy.

Sincerely,

Richard D. Freeman

Richard G. Freeman
Acting Director

MA/bh

Statement Of The
National Mass Retailing Institute

Before the
Committee on Finance
United States Senate

March 2, 1984

The National Mass Retailing Institute ("NMRI") is pleased to have this opportunity to state its strong support for S. 2185, a bill to amend the Internal Revenue Code of 1954 to extend the Targeted Jobs Tax Credit.

NMRI is a non-profit organization with the principal purpose of promoting and advancing the interests of its 125 mass retail merchant members. NMRI members operate over 10,000 retail stores in the continental United States and, together, have a gross annual sales volume of well over sixty billion dollars. Consequently, NMRI members are in the business of employing large numbers of people.

NMRI is in full agreement with Senator John Heinz, the sponsor of S. 2185, that the Targeted Jobs Tax Credit "has a great potential and needs a full opportunity to work."

The proposed amendment to the Internal Revenue Code to extend the Targeted Jobs Tax Credit ("TJTC") for a five-year period, i.e., until December 31, 1989, gives employers greater certainty about the availability of the TJTC as they seek to broaden employment opportunities to include some of our neediest citizens.

The credit creates a genuine incentive for employees to increase training opportunities, because it provides employers with flexibility to spend additional productive time working with targeted employees.

The TJTC provides an incentive for private sector businesses to offer meaningful employment to many persons who have previously known only federal assistance programs. The TJTC also provides incentives for businesses to hire economically-disadvantaged youths who might otherwise find their way into the mire of federal assistance programs. These youngsters may then be inculcated with the value of work and learn working skills, both of which will provide for their readier integration into the nation's workforce upon reaching adulthood.

The TJTC is an avenue leading the way out of poverty and joblessness for the economically disadvantaged who seek productive private sector employment opportunities. Furthermore, it allows such persons the chance to develop experience and a "work history" necessary for career advancement.

An additional benefit of the TJTC program is its contribution to lowering the deficit by diminishing unemployment and its attendant costs and by contributing additional taxes to the Treasury. These benefits are borne out by the preliminary study of the National Commission for Employment Policy.

NMRI would like to take this opportunity, as well, to express the concern of its members about certain proposed rules now being considered by the Internal Revenue Service. NMRI believes that the proposed rules tend to tie the hands of state authorities with the ultimate responsibility to grant certifications for the TJTC.

The proposed IRS rules contemplate a "matching requirement" that would impose greater restrictions on the type of work that may be performed as part of a qualified cooperative education program. Whereas the statute requires only that a student's work contribute to his education and employability, the proposed rules provide that the credit is available for employment offered to cooperative education only if the employment opportunity relates to the field of education being pursued. NMRI believes that the inculcation of the value of work and learning working skills, such as timeliness, team-work and communication skills, are as important for the student as any particular vocational training. A restrictive matching requirement would frustrate the statutory purpose of the TJTC.

Even more deleterious to the TJTC's purpose is the suggestion that credit for summer months be suspended entirely. Full-time summer employment is an essential part of a student's total work-school experience. If the TJTC excluded summer employment, private businesses would be less likely to extend offers of employment to those disadvantaged students who stand to benefit most from the experience.

In sum, NMRI supports the five-year extension of the TJTC as a means of ensuring continued private-sector employment for the most disadvantaged members of society. NMRI opposes any restrictions on the TJTC that would frustrate, either fundamentally or through administration, the very purpose it is meant to serve.

REMARKS BY COMMISSIONER ROBERTS,
NEW YORK STATE DEPARTMENT OF LABOR, TO
SENATE FINANCE COMMITTEE HEARING ON THE
TARGETED JOBS TAX CREDIT
MARCH 2, 1984

NEW YORK STATE EMPLOYERS HAVE LED THE NATION IN UTILIZING THE TARGETED JOBS TAX CREDIT (TJTC) TO PROVIDE JOBS FOR DISADVANTAGED WORKERS. IN FISCAL 1983, 30,181 TJTC-ELIGIBLE APPLICANTS WERE HIRED THROUGH THE NEW YORK STATE JOB SERVICE. SINCE THE PROGRAM'S INCEPTION FIVE YEARS AGO, 20,398 NEW YORK BUSINESSES TOOK ADVANTAGE OF TJTC'S INCENTIVE AND EMPLOYED 83,711 ELIGIBLE WORKERS.

AS THE COMMISSIONER OF LABOR FOR THE STATE OF NEW YORK, I URGE THE SENATE FINANCE COMMITTEE TO SUPPORT PASSAGE OF SENATOR HEINZ' PROPOSED LEGISLATION S. 2185. I ALSO ENCOURAGE YOU TO AMEND THE LAW TO ADDRESS THE ADDITIONAL CONCERNS REFERRED TO BELOW.

I. EXTENSION OF TJTC AUTHORIZING LEGISLATION

FOR OVER 20 YEARS THE FEDERAL GOVERNMENT HAS RESPONDED TO THE NEEDS OF OUR DISADVANTAGED CITIZENS WITH INTERVENTION PROGRAMS TARGETED TO TRAINING, JOB DEVELOPMENT, AND EMPLOYMENT SUBSIDIES. THE MANPOWER DEVELOPMENT TRAINING ACT; SUMMER YOUTH EMPLOYMENT PROGRAM; COMPREHENSIVE EMPLOYMENT & TRAINING ACT; AND THE NEW JOBS CREDIT WERE PREDECESSORS OF OUR CURRENT FEDERAL INITIATIVES TO INCREASE JOB OPPORTUNITIES FOR THE DISADVANTAGED. THE JOB TRAINING PARTNERSHIP ACT AND THE TARGETED JOBS TAX CREDIT ARE THE INSTRUMENTS TO MEET THESE OBJECTIVES TODAY.

THE TARGETED JOBS TAX CREDIT (TJTC) IS A UNIQUE FEDERAL PROGRAM WHICH HAS STRENGTHENED THE PARTNERSHIP BETWEEN BUSINESS AND GOVERNMENT. IT OFFERS CORPORATIONS AND SMALL BUSINESSES TAX INCENTIVES WHICH FOSTER THE EMPLOYMENT OF INDIVIDUALS MOST IN NEED OF JOB OPPORTUNITIES. WITH THIS PROGRAM, THE DISADVANTAGED RECEIVE A FEDERALLY SUBSIDIZED INCOME FOR PRODUCTIVE EMPLOYMENT, UNDER THE TUTELAGE OF THE PRIVATE SECTOR, WITH A MINIMUM OF "RED TAPE."

CONSIDERING THE SUCCESSES OF THE PROGRAM TO DATE, A FIVE-YEAR EXTENSION WILL ALLOW AN INCREASING NUMBER OF BUSINESSES TO DETERMINE THAT TARGETED GROUP MEMBERS, SUCH AS THE HANDICAPPED, VIETNAM-ERA VETERANS, AND DISADVANTAGED YOUTHS, CAN EFFECTIVELY SATISFY THEIR LABOR NEEDS. THESE FAVORABLE EXPERIENCES WILL SERVE TO EXPAND THE AVAILABLE JOB OPPORTUNITIES FOR THOSE IN THE TARGETED GROUPS AND REDUCE THEIR DEPENDENCY ON FEDERAL, STATE, AND LOCAL GOVERNMENT ASSISTANCE PROGRAMS FOR THEIR SUPPORT.

II. TIMELINESS REQUIREMENTS FOR TJTC CERTIFICATIONS

THE 1981 AMENDMENTS ELIMINATED THE ISSUANCE OF RETROACTIVE CERTIFICATIONS BY INCLUDING THE REQUIREMENT THAT THE EMPLOYER MUST RECEIVE THE CERTIFICATION OR REQUEST THE CERTIFICATION IN WRITING FROM THE JOB SERVICE BEFORE THE DAY THE INDIVIDUAL BEGINS WORK. THIS REQUIREMENT WAS LIBERALIZED BY ONE DAY IN THE 1982 AMENDMENTS WHICH NOW REQUIRE THE EMPLOYER TO MAKE WRITTEN REQUEST ON OR BEFORE THE DAY THE INDIVIDUAL BEGINS WORK. BY IRS REGULATION THE LABOR DEPARTMENT IS REQUIRED TO JUDGE THE TIMELINESS OF THESE WRITTEN REQUESTS BY

THE DATE OF RECEIPT OR THE DATE OF POSTMARK. THE INSERTION OF THE POSTAL SERVICE INTO THIS PROCESS FURTHER IMPEDES AN EMPLOYER'S ABILITY TO MEET THIS TIMELINESS REQUIREMENT IN MANY CASES.

THE NEW YORK STATE DEPARTMENT OF LABOR IS CURRENTLY REJECTING APPROXIMATELY 1,000 CERTIFICATION REQUESTS EACH MONTH FROM EMPLOYERS WHO FAIL TO MEET THIS REQUIREMENT EVEN THOUGH THEY HAVE COMPLIED WITH THE INTENT OF THE LAW AND HIRED A TJTC-ELIGIBILE INDIVIDUAL. IN MANY INSTANCES NEW EMPLOYEES BEGIN WORKING FOR CORPORATIONS THE SAME DAY THAT THEY ARE HIRED. WRITTEN REQUESTS MAILED AT THE END OF THE DAY ARE OFTEN NOT POSTMARKED BY THE U.S. POSTAL SERVICE UNTIL THE FOLLOWING DAY, WHICH RESULTS IN A DISALLOWED CERTIFICATION.

WE ESTIMATE AS MANY AS 20% OF THESE REJECTIONS ARE DUE TO A SINGLE DAYS' DELAY AS INDICATED BY THE POSTMARK. THIS REPRESENTS A LOSS OF MILLIONS OF DOLLARS OF POTENTIAL TAX CREDITS TO NEW YORK STATE EMPLOYERS EACH MONTH.

A RELAXATION OF THE PRESENT TIMELINESS FILING REQUIREMENTS WOULD ELIMINATE MANY ADMINISTRATIVE PROBLEMS THAT ARE CURRENTLY BEING EXPERIENCED BY STATE EMPLOYMENT SECURITY AGENCIES (SESAs) AND WOULD FACILITATE GREATER UTILIZATION OF THE PROGRAM. AN ADDITIONAL FILING PERIOD OF ONE TO THREE DAYS IS RECOMMENDED TO ALLOW FOR VARIATIONS IN POSTAL SERVICE HANDLINE OF MAIL.

III. INADEQUATE TJTC FUNDING

BECAUSE OF INCREASED EMPLOYER USE OF THE TJTC PROGRAM, CURRENT ADMINISTRATIVE FUNDING IS GROSSLY INADEQUATE. THE NUMBER OF ELIGIBILITY DETERMINATIONS MADE BY THE NEW YORK STATE JOB SERVICE IN FY'83 INCREASED BY 65% OVER THE PREVIOUS FISCAL YEAR. THE NUMBER OF CERTIFICATIONS ISSUED HAS CLIMBED BY OVER 68% FROM 18,001 TO 30,181 DURING THE SAME PERIOD. HOWEVER, THE FY'84 NEW YORK STATE ALLOCATION OF $1.4 MILLION IS IDENTICAL TO FISCAL YEAR 1983.

THIS LEVEL OF FUNDING SUPPORTS ONLY 25 POSITIONS TO PROCESS DETERMINATIONS AND ISSUE CERTIFICATIONS; AND 14 POSITIONS TO RENDER PROGRAM SERVICES THROUGHOUT THE STATE. FEDERAL DIRECTIVES REQUIRE THAT NEW YORK STATE'S DEPARTMENT OF LABOR ISSUE EMPLOYER CERTIFICATIONS WITHIN 72 HOURS OF RECEIPT OF REQUEST. DESPITE THE SIMPLICITY OF NEW YORK'S CERTIFICATION PROCESS, THE VOLUME OF TRANSACTIONS HAS CREATED A FOUR WEEK BACKLOG. DELAYS IN THE ISSUANCE OF CERTIFICATIONS AND MORE IMPORTANTLY, CERTIFICATION DENIALS, CREATE HARDSHIPS FOR BOTH EMPLOYERS AND EMPLOYEES AND HINDER PROGRAM EFFECTIVENESS.

CONGRESS SHOULD APPROPRIATE SUFFICIENT FUNDS TO ALLOW STATE EMPLOYMENT SECURITY AGENCIES TO OPERATE AND ADMINISTER THE TARGETED JOBS TAX CREDIT PROGRAM EFFECTIVELY.

IV. OFFSITE TRAINING AND EMPLOYMENT ACTIVITIES

DESPITE THE EXPANDING USE OF THE TARGETED JOBS TAX CREDIT PROGRAM, HIGH UNEMPLOYMENT PERSISTS IN NEW YORK AND IS PARTICULARLY ACUTE AMONG THE TARGETED POPULATIONS INTENDED TO BE SERVED BY THE TJTC: YOUTH AGED 16-19 (28.8 PERCENT) AND ECONOMICALLY DISADVANTAGED (ALMOST 49 PERCENT OF THE UNEMPLOYED SERVED BY THE JOB SERVICE LAST YEAR). ON AVERAGE LAST YEAR, 135,000 NEW YORK YOUTHS AGED 16 THROUGH 19 COULD NOT FIND WORK.

NATIONWIDE, YOUTHS 16 THROUGH 19 EXPERIENCED AN AVERAGE 22.5% JOBLESS RATE IN 1983 -- SLIGHTLY UNDER THE NEW YORK LEVEL.

THE TARGETED JOBS TAX CREDIT INITIATIVE WAS DESIGNED TO AMELIORATE THESE DISASTROUS UNEMPLOYMENT RATES BY SUBSIDIZING PRIVATE SECTOR EMPLOYMENT OF DISADVANTAGED YOUTHS. BUT EVEN AN 85% TAX CREDIT FOR DISADVANTAGED SUMMER YOUTH AGE 16 AND 17 HAS NOT DRAMATICALLY ALTERED THE STAGGERING UNEMPLOYMENT RATES FOR THIS POPULATION OF JOB SEEKERS.

MANY BUSINESSES ARE UNABLE TO PROVIDE THE STAFF TIME NEEDED FOR SUPERVISION, GUIDANCE, AND TRAINING THAT ACCOMPANIES THE EMPLOYMENT OF THESE JOB CANDIDATES. BUSINESS LEADERS ACCEPT THEIR RESPONSIBILITY AS PARTNERS WITH GOVERNMENT AND OFTEN DONATE FUNDS TO NOT-FOR-PROFIT COMMUNITY ORGANIZATIONS TO PROVIDE EMPLOYMENT AND TRAINING OPPORTUNITIES.

MANY BUSINESSES HAVE EXPRESSED AN INTEREST IN PROVIDING OFFSITE TRAINING SERVICES FOR NEW EMPLOYEES WHO ARE MEMBERS OF THE TARGETED GROUPS, BUT ARE RELUCTANT TO ENGAGE IN THIS ACTIVITY WITHOUT CLEAR STATUTORY LANGUAGE ACKNOWLEDGING THIS ACTIVITY AS APPROPRIATE TO THEIR TRADE OR BUSINESS. ON-SITE TRAINING OFTEN IS PRECLUDED BY LIMITATIONS OF THE WORK PLACE AND EXPERTISE OF THE EMPLOYER'S WORK FORCE.

WITH A PRIVATE RULING (NO. 8338042) ISSUED BY THE INTERNAL REVENUE SERVICE LAST YEAR, STANDARD OIL OF INDIANA WAS ABLE TO LEVERAGE A NET PAYROLL COST OF $21,000 INTO JOBS FOR 131 ECONOMICALLY DISADVANTAGED YOUTH WITH A GROSS SUMMER PAYROLL OF $129,000. TWENTY-FIVE OF THESE YOUNGSTERS WERE EMPLOYED IN THE COMPANY'S CORPORATE HEADQUARTERS.

THE RULING AUTHORIZED THE STANDARD OIL COMPANY TO CLAIM THE TAX CREDIT FOR SALARIES PAID TO 106 ADDITIONAL ELIGIBLE YOUTH THAT WERE PLACED IN OFFSITE TRAINING OR JOB ASSIGNMENTS BY THE COMPANY. THE ASSIGNMENTS WERE TO SMALL INDEPENDENT BUSINESSES AND NOT-FOR-PROFIT COMMUNITY ORGANIZATIONS WHERE THE YOUTHS SERVED IN ACTIVITIES THAT WERE INTEGRAL TO THE BUSINESS OF STANDARD OIL. STANDARD OIL WAS IN EVERY SENSE OF THE WORD, THE EMPLOYER, WHILE THE SMALL BUSINESS OR COMMUNITY ORGANIZATION PROVIDES THE DIRECT SUPERVISION AND TRAINING ON BEHALF OF THE COMPANY.

WHILE THIS PRIVATE RULING CANNOT BE CITED AS A PRECEDENT FOR CLAIMS BY OTHER BUSINESSES, IT DID BRING ATTENTION TO SEVERAL PRINCIPLES WHICH SHOULD BE CLEARLY AUTHORIZED IN THE STATUTE.

1. THE TERM "TRADE OR BUSINESS" SHOULD BE DEFINED TO ENCOMPASS THE TRAINING OF EMPLOYEES IN SKILLS THAT ARE INTEGRAL WITHIN THE EMPLOYER'S TRADE OR BUSINESS, INCLUDING OUTSIDE TRAINING SERVICES OBTAINED BY THE EMPLOYER TO IMPROVE AND/OR MAINTAIN JOB SKILLS ASSOCIATED WITH THE EMPLOYER'S TRADE OR BUSINESS.

2. REMUNERATION THAT IS DEDUCTIBLE BY AN EMPLOYER UNDER SECTION 162 OF THE CODE SHOULD BE IDENTIFIED AS REMUNERATION PAID FOR SERVICES PERFORMED IN A TRADE OR BUSINESS OF THE EMPLOYER FOR PURPOSES OF SECTION 51(f).

3. WAGES PAID TO AN EMPLOYEE WHO IS PLACED BY THE EMPLOYER UNDER THE DIRECT SUPERVISION OF A TRAINING FACILITY OR INDEPENDENT BUSINESS IN ORDER TO IMPROVE EMPLOYMENT SKILLS ASSOCIATED WITH THE EMPLOYER'S TRADE OR BUSINESS SHOULD BE IDENTIFIED AS DEDUCTIBLE BY THE EMPLOYER UNDER SECTION 162 OF THE CODE AS AN ORDINARY AND NECESSARY EXPENSE, AND ENTITLE THE EMPLOYER TO CLAIM THE TARGETED JOBS TAX CREDIT ON SAID REMUNERATION.

MANY BUSINESS LEADERS WELCOME AN OPPORTUNITY TO PARTICIPATE IN JOB DEVELOPMENT AND TRAINING INITIATIVES. INCLUDING THE PRINCIPLES ESTABLISHED BY THE PRIVATE RULING IN THE STATUTE WILL CLARIFY AN ALLOWABLE ALTERNATIVE, WHERE ON-SITE EMPLOYMENT IS NOT FEASIBLE DUE TO THE DEMANDS OF THE WORK PLACE.

THE INTENT OF THE TARGETED JOBS TAX CREDIT INITIATIVE IS TO ENCOURAGE EMPLOYERS TO HIRE DISADVANTAGED JOB SEEKERS WHO NEED AN "EDGE" TO SECURE EMPLOYMENT. CLEARER LANGUAGE ON THESE PROVISIONS WILL INCREASE THE POTENTIAL FOR REALIZING THE STATED OBJECTIVES; AND THE BUSINESS SECTOR WILL BE BETTER ABLE TO PREPARE OUR YOUNG CITIZENS TO MEET THE INCREASING TECHNOLOGICAL DEMANDS OF THEIR COMPANY AND THE JOB MARKET.

weber

WEBER-STEPHEN PRODUCTS CO.
200 EAST DANIELS ROAD PALATINE ILL 60067
LOCAL (312) 934-5700

March 1, 1984

Mr. Roderick De Arment, Chief Counsel
Committee on Finance, Room SD-219
Dirksen Senate Office Building
Washington, D. C. 20510

Dear Mr. De Arment:

This letter is written to express our Corporation's very strong support of Senate Bill S.2185 which would extend the Targeted Jobs Tax Credit (TJTC) program. Weber-Stephen Products Co. has participated in this program for three years and has hired 346 TJTC eligible employees. In our opinion, the TJTC program is an effective program and should be continued. Some of our reasons are listed below.

1) The TJTC program provides the employer with a significant incentive to hire disadvantaged persons that otherwise might not be considered for employment. Weber's employees are now drawn primarily from the poorer sections of the Chicago metropolitan area and includes all racial and six different language groups.

2) Approximately one half of the TJTC employees that we have hired have become permanent, full time employees who support themselves and their families through productive work. Several have been promoted; many are now involved in company sponsored English Classes. I believe that this kind of success rate compares favorably to most social assistance programs.

3) The financial benefit of the TJTC program has enabled us to raise the wages of the entry level, low skill jobs so that they will be an attractive alternative to public assistance.

4) Especially when compared to the Comprehensive Employment and Training Act (CETA) and Job Training Partnership Act (JTPA) programs, TJTC is easily administered both by the participating agency (Illinois Job Service) and by the employer. No redundant record keeping or burdensome transfer payments are involved. Normal payroll procedures provide an excellent audit trail for claiming and verifying the yearly credit.

5) Finally, like many other American companies, Weber has faced stiff competition from abroad. The tax credit that we have realized through this program has definitely helped us to remain price-competitive with foreign markets.

In summary, the tax credit has provided jobs for many individuals who probably would not have had them available to them. We see the TJTC program being positive for all parties concerned. TJTC should be extended.

Best regards,

WEBER-STEPHEN PRODUCTS CO.

Joseph Moore
Personnel Director

JM:kg

The one. The only.